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ABSTRACT

At the request of members of the House Committee on Education and Labor and other congressmen, the General Accounting Office (GAO) reviewed certain aspects of the School Assistance in Federally Affected Areas (SAFA) program. Title I of this law authorizes financial assistance for maintaining and operating local educational agencies (LEAs) in which enrollments are affected by federal activities. The GAO reviewed the validity of claims for federal funds, the economic impact of federally connected children on LEAs, the SAFA payment rates compared to local educational costs, the impact on the applicant LEA of reducing SAFA payments to eliminate claims for parents working on federal properties located outside the LEA, and the impact of one state's equalization program on SAFA recipients. In addition, the GAO reviewed the adequacy of the regulations and instructions for determining eligibility and payment rates. The report contains several recommendations to help insure that federal impact aid payments to local education agencies are equitable. (Author/IRT)

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ED130455

REPORT TO THE HOUSE COMMITTEE ON EDUCATION AND LABOR

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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Assessment Of The Impact Aid Program

Office of Education

Department of Health, Education, and Welfare

This report contains several recommendations to insure that Federal impact payments to local educational agencies are equitable.

The report describes the effect on local educational agencies of teaching children whose parents are connected with the Federal Government. An analysis of data available for 1,671 local agencies showed that without impact aid entitlements 48 percent would need property tax increases of less than 5 percent and 18 percent would need increases of 5 to 10 percent. At the upper extreme, 15 percent of the local agencies would need property tax increases of 25 percent or more.

EA 008 841

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HRD-76-116

OCT. 15, 1976

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164031(1)

The Honorable Carl D. Perkins
Chairman, Committee on Education
and Labor
House of Representatives

Dear Mr. Chairman:

This report assesses the impact aid program authorized by Public Law 81-874, as amended, and administered by the Office of Education, Department of Health, Education, and Welfare. The report is in response to your request of January 28, 1974, and the requests of 13 members of your committee and 2 other Congressmen.

The report contains several recommendations to help insure that Federal impact aid payments to local educational agencies are equitable. It also presents the results of various analyses we made to determine (1) the economic impact of federally connected children on local educational agencies if all or part of their impact aid entitlements were withdrawn and (2) the effect various changes in eligibility and payments provisions would have on the program.

Copies of this report are being sent to each of the other requesters who are still Members of the Congress; to the Subcommittee on Elementary, Secondary, and Vocational Education; to the Director, Office of Management and Budget; and to the Secretary of Health, Education, and Welfare.

Sincerely yours,

Comptroller Genearl
of the United States

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ABBREVIATIONS

ADA	average daily attendance
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
LEA	local educational agency
OE	Office of Education
SAFA	School Assistance in Federally Affected Areas
SEA	State educational agency

COMPTROLLER GENERAL'S
REPORT TO THE CHAIRMAN
HOUSE COMMITTEE ON EDUCATION
AND LABOR

ASSESSMENT OF THE IMPACT AID PROGRAM

Office of Education
Department of Health,
Education, and Welfare

D I G E S T

One purpose of the School Assistance in Federally Affected Areas program--known as the impact aid program--is to reduce fiscal inequities caused by

--the presence of tax-exempt Federal lands and

--the burden on local educational agencies of providing suitable free public education to children whose parents are connected to the Federal Government.

Ninety-three of 100 local agencies reviewed claimed either more or less than the number of federally connected pupils they should have. In total, they overclaimed a net of $578,224--slightly less than 1 percent of total assistance claimed.

At the time of GAO's fieldwork, the Office of Education had identified a net of $336,091 in overclaims and had adjusted the claims. Local agencies thus were overpaid a net total of $212,133. (See p. 7.) These findings apply only to the local agencies studied and should not be used to draw overall conclusions about the program.

Office of Education regulations and instructions for determining eligibility need to be clarified and better enforced.

The legislative history of the impact aid law suggests that eligibility rests on a dependency relationship between a child and a uniformed services parent. The Office of Education, however, does not require

local educational agencies to determine this relationship. (See pp. 8, 11, and 12.)

Nor has the Office of Education defined adequately the requirements a parent must meet to be considered "employed on Federal property." It accepts claims for pupils whose parents temporarily work on Federal property regardless of where the parents are employed. In some local agencies this resulted in being reimbursed for pupils whose parents lived on and were employed by firms located on private property. (See p. 8.)

The Office of Education also does not require sufficient information on children having civilian parents to accurately determine their eligibility. (See pp. 11 and 12.)

The law provides that Federal payment rates can be established using local agencies which are generally comparable to the applicant. Office of Education instructions contain criteria for selecting comparable local agencies, such as legal classification, total number of pupils, and cost per pupil in average daily attendance. However, the Office has not established ranges for each criterion to assist State and local educational agencies in determining comparability nor specified what weight should be given to the various criteria items. Both of these factors are needed for comparable local agencies to be treated on a consistent basis. (See pp. 27 and 31.)

Office of Education procedures for approving payment rates derived using comparable local agencies are not consistent with its instructions for selecting such agencies. (See p. 33.)

The Secretary of Health, Education, and Welfare should direct the Office of Education to:

--Clarify requirements a parent must meet to be considered employed on Federal property so that payments to local agencies will better relate to the property tax-exempt status. (See pp. 22 and 23.)

--Require adequate documentation from local agencies to determine whether a child with a civilian parent employed or working on Federal property resides with that federally connected parent. (See p. 23.)

--Require adequate documentation from local agencies to determine whether a child is a dependent of a uniformed services parent. (See p. 23.)

--Specify in instructions for State and local educational agencies the weight that should be given to the published criteria items, and establish ranges for each criterion to assist in compiling the data necessary for selecting comparable local educational agencies. (See p. 39.)

--Develop procedures for approving Federal payment rates based on comparable local agencies which are consistent with its instructions. (See p. 39.)

--Require applicants to use as comparables only those local agencies that do not receive impact aid or determine an alternative procedure to remove the influence of federally connected children from per-pupil cost calculations. (See p. 40.) For related recommendations see pages 22 and 39.

GAO conducted additional analyses of fiscal year 1973 data available for 1,671 local agencies to develop information on the economic impact of federally connected children and found that without impact aid entitlements:

--Forty-eight percent of the 1,671 local agencies would need local property tax increases of less than 5 percent and an

additional 18 percent would need tax increases of 5 to 10 percent. At the upper extreme, 15 percent of the local agencies would need tax increases of 25 percent or more. (See p. 44.)

--An increase of less than $25 in local property taxes on a home with a market value of $40,000 would result for 48 percent of the local agencies, and an increase of $25 to $50 would result for 25 percent of the agencies. At the upper extreme, an increase of $100 or more would result for 15 percent of the local agencies. (See p. 47.)

GAO also applied alternative eligibility and payment provisions to the program and found that total impact aid entitlements could have been reduced between $68 million and $351 million, using fiscal year 1973 as a basis. (See p. 49.)

HEW concurred with most GAO recommendations, and HEW's planned actions are responsive to the recommendations. However, HEW had a different view about obtaining information to determine whether a child is a dependent of a uniformed services parent in order to be eligible for the program. Also, HEW believed that its procedures for approving Federal payment rates using comparable local agencies was consistent with its instructions for selecting such agencies. GAO disagreed with both views.

HEW said that some of the procedures and conditions in effect during the GAO review of Public Law 81-874 in fiscal year 1973 are no longer the same due to the complex changes made by Public Law 93-380 which was approved August 21, 1974, and became effective in fiscal year 1976. GAO pointed out it believes the discussions on the Office of Education's procedures for determining eligiblity and its instructions and procedures for determining payment rates are still pertinent to the program.

CHAPTER 1

INTRODUCTION

At the request of 14 members of the House Committee on Education and Labor and 2 other Congressmen, we reviewed certain aspects of the School Assistance in Federally Affected Areas (SAFA) program authorized by Public Law 81-874, approved September 30, 1950, as amended (20 U.S.C. 236). This program, known as the impact aid program, is administered by the Office of Education (OE), Department of Health, Education, and Welfare (HEW). Title I of this law authorizes financial assistance for maintaining and operating local educational agencies (LEAs) in which enrollments are affected by Federal activities.

In accordance with the requests and later agreements with the requesters, we reviewed (1) the validity of claims for Federal funds, (2) the economic impact of federally connected children on LEAs, (3) the SAFA payment rates compared to local educational costs, (4) the impact on the applicant LEA of reducing SAFA payments to eliminate claims for parents working on Federal properties located outside the LEA, and (5) the impact of one State's equalization program on SAFA recipients. In addition, we reviewed the adequacy of OE's regulations and instructions for determining eligibility and payment rates.

We limited our review to LEAs receiving assistance under title I, sections 2, 3(a), and 3(b) of Public Law 81-874, for fiscal year 1973. The Education Amendments of 1974, dated August 21, 1974, changed these sections effective in fiscal year 1976, which can increase or decrease Federal payments to LEAs. Although our report deals with LEAs which received assistance in fiscal year 1973, our discussions on OE procedures for determining eligibility and instructions and procedures for determining payment rates are still pertinent.

PROVISIONS OF SECTION 3 OF PUBLIC LAW 81-874

One purpose of Public Law 81-874 is to minimize the fiscal inequities caused by both the presence of tax-exempt Federal lands and the burden of providing suitable free public education to federally connected children. Under title I, section 3, of Public Law 81-874, as amended (20 U.S.C. 238), LEAs are to be compensated for the cost of

educating children who while attending such schools (1) resided on tax-exempt Federal property with a parent employed on Federal property or had a parent who was on active duty in the uniformed services--section 3(a)--or (2) were not included in section 3(a) and either resided on Federal property or resided with a parent employed on Federal property or (3) had a parent who was on active duty in the uniformed services--section 3(b).

An LEA may be eligible for compensation if it provides free public education to 400 or more federally connected children, as defined above, in average daily attendance (ADA). An LEA may still be eligible if it provided such education to at least 10 federally connected children in ADA and they represented 3 percent or more of the total children in ADA. The LEA is reimbursed for these students under a formula prescribed in the legislation: the number of children in ADA as defined in section 3(a) is added to one-half of the children in ADA as defined in section 3(b); the resulting sum is multiplied by a local contribution rate. (Ch. 3 discusses minimum rates and local contribution rates.)

The legislation does not specify the uses that can be made of such funds. Most LEAs deposit the Federal funds in their general operating expense accounts with all other available funds. The combined accounts are used to finance the LEAs' total school programs. The program is not designed to produce specific educational outcomes of school children. The legislation also provides that impact aid funds cannot be used to supplant State funds.

PROGRAM ADMINISTRATION

OE's SAFA division administers Public Law 81-874. The division develops policies and procedures for carrying out the law and distributes bulletins, instructions, and application forms to LEAs through State educational agencies (SEAs). LEAs send applications through their SEAs to the division for review and approval. Payments, however, are made directly to LEAs.

The division performs most activities from Washington, D.C. Field representatives in the 10 HEW regional offices make reviews at the LEA level, such as verifying data supporting LEAs' claims by investigating eligibility of property and children, and advise LEAs on records to be maintained to support their claims.

Division criteria state that OE field representatives should review each LEA receiving sections 3(a) and 3(b) impact aid funds at least once every 3 years. Criteria for selecting LEAs for field reviews are set by division headquarters, although regional commissioners of education are free to develop other criteria. According to division criteria, field representatives, in selecting LEAs for review, are to consider (1) LEAs which have not received a field survey in the last 3 years, (2) new applicants or applicants reapplying after a lapse in participation, (3) LEAs for which there are indications of ineligibility, and (4) LEAs which are marginal qualifiers under the 3-percent federally connected pupil requirement.

PROGRAM FUNDING

Payments under sections 3(a) and 3(b) have increased from $25 million in fiscal year 1951 to $548.7 million in fiscal year 1975. The following table shows statistics on the program's growth.

Fiscal year	Section 3(a) children in ADA	Section 3(b) children in ADA	Sections 3(a) and 3(b) payments to LEAs	Sections 3(a) and 3(b) entitlements if fully funded
			(millions)	
1951	50,701	385,754	$ 25.0	$ 26.0
1956	107,910	834,006	80.9	80.9
1961	231,275	1,361,769	198.6	198.6
1966	319,374	1,777,515	346.3	346.3
1971	384,380	2,062,584	478.6	594.9
1974	354,507	1,679,579	497.5	668.7
1975	342,343	1,607,484	548.7	705.9

This growth is attributable to several factors, including increases in school population, increases in school expenditure per pupil, expanded Federal activity, and amendments liberalizing the basic legislation.

If the program had been fully funded, these increases would have been much larger in fiscal years 1971-75. As shown, entitlements for fiscal years 1971, 1974, and 1975 were greater than actual payments to LEAs. Whenever funds appropriated for section 3 are not adequate to pay total entitlements, the funds are prorated--as in fiscal years 1951 and 1955 and every year since 1967.

For fiscal year 1975, $636.6 million was made available for Public Law 81-874, of which $548.7 million was for sections 3(a) and 3(b). The appropriation legislation directed OE to pay claims for federally connected children under section 3(a) at 90 percent of entitlements or, if such children comprised 25 percent or more of the LEA's total enrollment, at 100 percent. Section 3(b) claims were to be paid at 68 percent of entitlements.

BASIS FOR SELECTING LEAS

From a total of 4,581 LEAs receiving SAFA funds, we selected for review a sample of 100 in 17 States which received $61.7 million under sections 3(a) and 3(b) in fiscal year 1973. The sample was chosen primarily to test the accuracy of LEAs' claims for payment and to determine how OE applied eligibility criteria to individual LEAs. Selection was based on several criteria including number of eligible children in the LEAs and percent of payments received:

Number of eligible children	LEAs in the program		Percent of total payments received	Number of LEAs in sample
	Percent	Number		
0 to 399	81	3,711	15	43
400 to 2,499	15	687	28	30
2,500 and over	4	183	57	27
Total	100	4,581	100	100

Another criterion was the percent of eligible children in the LEA of total number of children in enrollment:

Percent of eligible children of total number of children in enrollment	LEAs in the program		Number of LEAs in sample
	Percent	Number	
0 to 9.99	58	2,657	48
10 to 24.99	26	1,191	29
25 and over	16	733	23
Total	100	4,581	100

A third criterion was reasonable geographic distribution. The 100 LEAs are located in 17 States.

Because the LEAs in our sample were selected judgmentally, we did not project our findings to the total number of LEAs in the program, but we did project assistance claimed by the 100 LEAs to the total number of children and the total section 3(a) and 3(b) assistance. The findings apply only to the LEAs studied and the results cannot be used to draw overall conclusions about the SAFA program. The sample included 297,963 children claimed as eligible, or 13.5 percent of the total children claimed in the program. The sample also represents $61,726,872, or 12.1 percent, of the total section 3(a) and 3(b) payments for fiscal year 1973. The LEAs we reviewed are listed in appendix I.

SCOPE OF REVIEW

At OE headquarters in Washington, D.C., and at HEW regional offices in Atlanta, Boston, Dallas, Denver, Kansas City, and San Francisco, we interviewed officials and reviewed applicable legislation, regulations, policies, and procedures for administering the SAFA program. We also examined assistance applications and other records of the 100 LEAs for fiscal year 1973 and interviewed LEA officials. In addition, we reviewed allocation formulas of the States in which the 100 LEAs were located. We gathered data for making program sensitivity analyses at OE headquarters.

CHAPTER 2

VALIDITY OF CLAIMS FOR IMPACT AID FUNDS

Of the 100 local educational agencies we reviewed, 93 claimed either more or less than their eligible number of pupils. In total these LEAs overclaimed a net of $578,224--slightly less than 1 percent of their total assistance claimed. However, Office of Education program personnel, on the basis of their review of the LEAs' claims at the time of our fieldwork, identified a net of $366,091 in overclaims and adjusted the claims. Therefore, the LEAs were overpaid a net total of $212,133.

OE regulations and instructions for determining eligibility need to be clarified and better enforced to prevent LEAs from overstating or understating their claims. Also, OE procedures for average daily attendance computation need improvement to adjust for differences in the ways States compute ADA.

In addition to reviewing LEAs' claims for impact aid funds, we reviewed State aid allocation formulas in the States in which the LEAs were located and noted that two States appeared to have been using section 3 funds to supplant State funds in violation of Public Law 81-874.

PROGRAM REQUIREMENTS

Applicants must submit two forms to OE for section 3 impact aid--an initial application and a final report. The initial application requests financial assistance for a given fiscal year. It is to provide adequate information for OE to determine whether the LEA is eligible for payment by having 400 or more federally connected students or at least 10 who comprise at least 3 percent of the LEA's total ADA. It also serves as the basis for a partial payment of estimated entitlement.

Final payment is made when OE receives and reviews the final report. This report gives information on the entire fiscal year as a basis for determining the actual amount of payment to which the LEA is entitled. Payments are made on a fiscal year basis ending June 30. However, the LEA's actual ADA and current expenditures for the fiscal year are not known until after this date. Thus, to give the time

necessary for compiling data, OE regulations require that the final report be submitted no later than September 30 following the end of the fiscal year.

Applicants must document the eligibility of pupils claimed either by a parent-pupil survey or with certificates from employers or appropriate housing officials certifying that the parent is employed or residing on Federal property. Because of the administrative ease of conducting parent-pupil surveys, most LEAs use this method.

OE allows applicants to make the parent-pupil survey on a date of their choosing, but no earlier than the fourth day of the regular school year and no later than a date which will allow the State educational agency to review and mail the application to OE before January 31. Surveys are made by sending questionnaires to parents. Applicants may also, if they feel it is to their advantage, make a second survey during the last quarter of the regular school year and average the results of the two surveys in final requests for funds.

ACCURACY OF CLAIMS

Of the 100 LEAs, 93 claimed either more or less than the number of pupils for which they were eligible. In total these LEAs overclaimed a net of $578,224--slightly less than 1 percent of their total assistance claimed. However, OE officials, on the basis of their review of these claims at the time of our fieldwork, identified a net of $366,091 in overclaims and adjusted the claims before making payments. Therefore, the LEAS were overpaid a net total of $212,133.

For the 100 LEAs, we determined that free public education was being given to 400 or more federally connected children in ADA or, if less than 400, that the LEA provided such education to at least 10 federally connected children representing 3 percent or more of the total children in ADA. We reviewed documentation to determine that the pupil was classified correctly as a section 3(a) or 3(b) pupil and that the LEA's claim was in accordance with OE regulations and instructions in effect for fiscal year 1973. The types of errors that recurred most frequently were claiming pupils who were not residing with the federally connected parent and mistakes in calculating ADA.

We brought our findings to the attention of OE officials in a May 30, 1975, letter to give them an opportunity

to review the findings and take appropriate corrective action. The officials said that OE would follow up on these claims and does not consider payments as final until a detailed review of supporting records has been completed or 3 years have elapsed without such a review. Any overpayment can be deducted from payments due the LEA for later claims. OE instructions stipulate that an LEA generally cannot be paid more than the amount claimed on its final report. Therefore, the amount underclaimed cannot be reimbursed. Overclaims paid, however, can be offset against underclaims in later years.

OE REGULATIONS AND INSTRUCTIONS FOR DETERMINING ELIGIBILITY NEED TO BE CLARIFIED AND BETTER ENFORCED

We identified several areas where OE regulations and instructions for determining eligibility need to be clarified and better enforced to minimize the chance of LEAs overstating or understating claims for impact aid funds.

Defining eligibility

OE has not, except for a few special employment situations, issued regulations or instructions defining the requirements which a parent must meet to be considered "employed on Federal property." It accepts claims for pupils whose parents are working temporarily on Federal property on the day the parent-pupil survey is taken, regardless of where the parents are actually employed. OE uses the terms "working on" and "employed on" synonymously. Thus, some LEAs are reimbursed for pupils whose parents live on and are employed by firms located on private property.

Employed on Federal property

Public Law 81-874 does not define employed on Federal property. However, as stated in House Report No. 2287, 81st Congress, 2d Session (1950), the law attempts to reimburse LEAs for the burden imposed upon them because of the tax-exempt status of the Federal property:

> "Under the present pattern of school financing in the various States, most local educational agencies meet the local cost of educating their children from real-property tax revenues. Approximately half of the real-property tax required to meet the local share of the cost of educating a child is derived from taxation on

residential property and half from taxation on commercial and other real property - in other words, half from taxation on homes where children live and half from taxation on the factories and offices where their parents work. The local educational agency derives no such revenue in the case of a child who lives on tax-exempt Federal property and whose parent is employed on such property."

* * * * *

"The effect on communities required to provide education to many children of parents whose residence or employment on Federal property deprives the educational agency of revenues is at the heart of the problem which confronts most of the school districts now suffering so severely from establishment or reactivation of Federal activities in their communities."

It thus appears that School Assistance in Federally Affected Areas was not intended to include those children whose parents were temporarily working on Federal property on the survey day because this does not reduce the property tax revenues available to the LEAs.

OE defines "employed on" for special employment situations involving lumbering, grazing, and farming Federal lands. In these situations OE's instructions consider a person employed on Federal property if, during a given period, he spent a greater part of his working time on Federal property than on non-Federal property. To establish eligibility for SAFA payments, LEAs using the parent-pupil survey must certify that persons in these special employment situations worked over 50 percent of their time on Federal property between July 1 and the parent-pupil survey date.

Various interpretations of the term "employed on"

The LEAs' interpretations of the term "employed on Federal property" varied. The parent-pupil survey form at one LEA requested both the place where the parent worked on the survey date and the location of the parent's employer. In fiscal year 1973 the LEA claimed and received payments for several pupils whose parents were temporarily working on but were not employed on Federal property. One parent, a glass

company employee, was installing windows in a Federal building on the survey date. Another parent was a physician working as a consultant for a Veterans Administration hospital on the survey date. The physician stated on his survey form that he was a part-time consultant who worked about 4 hours a week for the hospital. Another parent was a pharmaceutical salesman who called on the hospital on the survey date.

OE's general acceptance of LEAs' claims for children of parents in such temporary situations may have caused two other LEAs we reviewed to initiate the following actions:

--One LEA, in its instructions to teachers before the survey date, reminded them of the SAFA eligibility standards by stating that: "If the parent works for Coca-Cola Bottling Company and his route on [the survey date] is [through a Marine Base] he qualifies for Federal impact aid. Stress this point to your class."

--Another LEA sent a memorandum to a parent suggesting that he arrange his music teaching schedule so that he would be working at a school located on eligible Federal property on the survey date. Consequently, four of his children were claimed for SAFA purposes.

Another LEA did not adhere to OE instructions for determining eligibility in special employment situations. The LEA claimed, and OE approved, payments of about $14,000 for 103 children of loggers even though the LEA only had documentation showing that the parents were working on Federal property on the survey date. It had no documentation showing that these parents worked over 50 percent of their time on Federal property. An OE official responsible for reviewing LEA claims in that HEW region said he only required an employer's certification that persons employed in these situations were working on Federal property on the survey date.

Not specifically defining the term "employed on" may have led some LEAs in another HEW region to interpret its meaning narrowly. Instructions issued with the survey form by one LEA, for example, requested that parents who reside on, are employed as full-time civilian employees on, or are assigned to one of the installations listed complete the form.

Three other LEAs stated in their instructions that parents who operate routes, such as milk, newspaper, and

soft drink routes, are not eligible unless they operate from a station located on Federal property. This interpretation seems to be more consistent with the basic intent of the law but not consistent with the way OE generally administers the law.

Identifying eligible children

One frequent LEA error was to claim children who did not reside in the household of the federally connected parent. Although OE regulations and instructions require LEAs to document that a child actually resides with a civilian federally connected parent, they were seldom adhered to. Of the 100 LEAs, 21 did not have adequate documentation to determine if the child resided with the federally connected parent.

OE regulations and instructions do not adequately define the eligibility requirements for a child residing with a parent in the uniformed services. None of the LEAs we reviewed had documentation which would have permitted OE to have accurately determined, without going to other sources, the validity of claims based on such children. Furthermore, OE procedures for approving claims based on a child's having a parent in the uniformed services do not appear to be consistent with the intent of the law.

Proof of the child-parent relationship and the parent-Federal property relationship are essential for determining student eligibility. OE verifies a child's eligibility on the basis of information included in each LEA's parent-pupil survey form or on certificates from employers or appropriate housing officials. The information needed depends on whether the child has (1) a civilian parent employed or residing on Federal property or (2) a parent serving in a branch of the uniformed services.

Children with a civilian parent

To be eligible the law requires that a pupil reside on Federal property or reside with a parent employed on Federal property. OE requires applicants using parent-pupil survey forms to include the pupil's address and the name of the parent employed on Federal property with whom the child resides.

Of the 100 LEAs, 79 complied with OE's requirement. However, 7 of the 79 also requested the address of the federally connected parent as additional information on their survey forms; with this type of data obvious errors were identified by OE before approving the claims. Without the address of both the parent and the child, OE officials could not accurately determine whether the pupil actually resided with the federally connected parent unless they checked other sources. Because this is time consuming, it was normally done only when it appeared that the child may not have resided with the federally connected parent--for example, when the surnames of the person signing the form and the parent differed.

Children with a parent in the uniformed services

During our fieldwork, OE required that a pupil with a parent in the uniformed services reside in that parent's household to be eligible, although its instructions to LEAs stated that such pupils are presumed to reside with the parent. If the child resided with a parent divorced or separated from the uniformed services parent, OE generally considered the child ineligible and disallowed the claim. OE enforced this policy even though it was not stated in the law or in its instructions or regulations.

In May 1975 OE changed its regulations so that it is not necessary for the pupil to reside with the uniformed services parent. Because the previously enforced requirement was not supported by the law or its legislative history, LEAs now must document only that the pupil has a parent in the uniformed services.

The legislative history of Public Law 81-874 suggests that to be eligible the child should be a dependent of the uniformed services parent. It would seem to be inconsistent with the overall purpose of the impact aid program to interpret the term "parent" in section 3(b)(3) of the act to include an individual who neither lives with nor supports his child. OE's past and present regulations and instructions do not require determining the dependency relationship between the uniformed services parent and the child.

OE regulations require LEAs to ascertain the uniformed services parent's name, rank, serial number, and branch. This is not adequate for determining the child's dependency relationship with such parent.

Illustrative of the problems encountered from not defining eligibility requirements for children with a uniformed services parent, OE officials in three HEW regions said they considered pupils ineligible if they resided with a parent divorced or separated from the parent in the uniformed services parent. An LEA official in one region disagreed with this definition because he believed that a child's eligibility should be based on where the child lived and whether the parent in the uniformed services was paying child support. Although this latter interpretation seems to be consistent with the legislative intent, claims for such children, if identified during OE's review in the three HEW regions, would have been disallowed. In this LEA's fiscal year 1973 claim, we identified nine pupils of separated parents that were not detected by the OE representative and thus were approved.

OE officials told us that in the past they disallowed many claims for children with uniformed services parents because the parents were divorced or separated. The dependency relationship between the federally connected parent and child was not considered. OE generally detected that parents were divorced or separated when such information was volunteered on the parent-pupil survey forms or where the surnames of the parents differed and other sources substantiated a divorce or separation.

Because past claims were disallowed if the child resided with a parent divorced or separated from the uniformed services parent, OE may have disapproved valid claims.

Effect of not defining or enforcing eligibility requirements

We did not verify the information given on all parent-pupil survey forms reviewed and, therefore, did not ascertain the amount of the overclaims resulting from OE's not enforcing its requirement that LEAs document that claimed children's residence with a civilian federally connected parent. Furthermore, we cannot estimate the possible overclaims or underclaims resulting from OE's not considering the dependency relationship between the child and the uniformed services parent.

As part of our review, however, we did verify, by checking with school officials or parents, certain required data missing from parent-pupil survey forms or information indicating that the claim may have been ineligible--for example, when the surname of the federally connected parent and the person signing the form differed. We determined that 1,018 pupils in 59 LEAs, the basis for an estimated $137,928 in claims, were ineligible because they were not residing with the civilian federally connected parent or may have been ineligible under the pre-1975 regulations because they were not residing in the household of the uniformed services parent. We did not determine whether the children claimed on the basis of a uniformed services parent were dependents of the parents. However, they would have been declared ineligible by OE under the policy in effect during our fieldwork if it had been determined that the parents were divorced or separated.

Procedures for computing ADA need improvement

Another frequent error was inaccurately calculating total ADA, which is the basis for estimating federally connected ADA. In addition, we found 35 of the 100 LEAs did not adjust total ADA to obtain federally connected ADA in accordance with OE procedures.

Furthermore, OE does not have procedures to adjust for differences in the ways States compute ADA. One State, although within the law, was receiving more SAFA funds than another State because of its method of computing ADA.

OE requirements for computing federally connected ADA

OE regulations require LEAs to determine federally connected ADA by multiplying the total yearend ADA by the ratio of pupils in each federally connected category to total school enrollment. Since actual total ADA is not known until the end school year, LEAs using the parent-pupil survey estimate the final figure using total ADA from the beginning of the school year to the survey date. OE then uses this figure as a basis for making interim payments. After the school year ends, the LEA files a final report showing actual total ADA for the year, which is used as the basis for final payments. Final payments are subject to change based on the results of OE field reviews of the LEA's records.

The data needed for this procedure is (1) number of federally connected pupils in each category in attendance on the survey date, (2) total school enrollment on that date, adjusted to exclude pupils for whom the LEA is paid tuition, prekindergarten pupils, and pupils 21 and older, and (3) total ADA at yearend, adjusted to exclude pupils noted in (2). The resulting formula is:

$$\text{Federally connected pupils at survey date} \times \frac{\text{Adjusted yearend ADA}}{\text{Adjusted total school enrollment at survey day}} = \text{Federally connected ADA}$$

OE field representatives are responsible for verifying that LEAs compute ADA in accordance with State law and OE regulations. OE accepts each State's definition of ADA. It has no procedure to equalize different methods of computing ADA. Some States we reviewed did not audit the ADA figures submitted by LEAs. However, OE headquarters officials said that in most cases field representatives verify the unadjusted total ADA with required State reports and then verify that the required SAFA adjustments have been made.

Errors in ADA

Overstating or understating final ajdusted total ADA directly affects federally connected ADA and thus the payments which OE makes to LEAs. Of the 100 LEAs, 35 did not make adjustments in accordance with OE procedures. Although OE representatives corrected most errors concerned with required adjustments in those LEAs reviewed before our fieldwork, they verified only that total unadjusted ADA was the same as that reported to the State.

In several instances inaccurate or unverifiable yearend ADA figures were submitted to OE. Two LEAs, for example, submitted figures for incorrect years and two other LEAs--in a State which did not audit its LEAs' figures--were unable to reconcile the ADA reported to the State with that reported to OE.

Impact of varying State ADA computations

Methods used to compute adjusted yearend ADA directly affect federally connected ADA and payments to LEAs when minimum payment rates are used. 1/

In one State LEAs estimated their ADA by averaging the number of pupils who attended school on 2 given days, one near the beginning and one near the end of the school year. In another State, beginning in fiscal year 1974, LEAs estimated ADA from attendance data taken over a 4-week period. LEAs in a third State, although they calculated ADA using data collected over the entire school year, included some absentees in their figures. LEAs in most other States we reviewed excluded all absentees. Thus, the computed total ADA of LEAs in the third State was higher than it should have been and resulted in higher claims because they used minimum payment rates.

To determine the effect of including absentees in ADA calculations, we recomputed 1973 SAFA payments for LEAs using minimum payment rates in two States. One required LEAs to exclude all absentees from the computation, while the other required LEAs to exclude only unexcused absentees. Had the latter method been used by LEAs in the State excluding all absentees from ADA, their SAFA payments would have been about $15 million, or $1.3 million more than the $13.7 received. Conversely, had LEAs in the other State excluded all absentees and experienced the same rate of absences as in the first State, their SAFA payments would have been $15 million, or $1.1 million less than the $16.1 million received. The payment changes are solely the result of the different methods used in computing ADA combined with the use of minimum payment rates.

Possible alternative procedure

To prevent one State from receiving more aid than another solely because of the procedure for computing total ADA, OE could adopt an alternative method of computing federally connected ADA when (1) a State's computation results in that State receiving more aid than another State or (2) an LEA's

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1/For LEAs not using minimum payment rates, the formula for computing SAFA payments nullifies this effect. The legislation provides for minimum payment rates, discussed further in ch. 3, which are used by most LEAs in the program.

reported total ADA must be considered an estimate because it was not computed by dividing aggregate days in attendance by the number of days in the school year, or was not verified by the SEA.

The current formula provides that the number of federally connected pupils in attendance on the survey date be multiplied by the ratio of the adjusted yearend ADA to adjusted total school enrollment at survey date.

$$\text{Federally connected pupils at survey date} \times \frac{\text{Adjusted yearend ADA}}{\text{Adjusted total school enrollment at survey date}} = \text{Federally connected ADA}$$

When this ratio results in higher payments in one State than in another because of the computation used to determine ADA, a national average of the ratio between ADA and total school enrollment can be used instead. The following hypothetical example shows the results of applying such an alternative method. Some changes in the legislation may be needed for OE to make use of an alternative method.

	LEA data	National average ADA (note a)
200	Federally connected pupils at survey date	ADA = 90 percent of total school enrollment
390	Adjusted yearend ADA	
400	Adjusted total school enrollment at survey date	

a/This figure would be derived by averaging the ADA and enrollment figures reported to OE by the States.

Applying the current formula, the LEA data would yield 194 federally connected pupils (200 X (390÷400)=194). Applying the proposed alternative, the LEA data would yield 180 federally connected pupils (200 X .90 = 180).

Using a national average ADA would require LEAs to report only federally connected enrollment at the survey date and OE to review that figure for accuracy. By using this method OE would provide a standardized procedure to help insure that ADA estimates are computed on the same basis and thus eliminate the impact on SAFA payments of certain States' methods of computing ADA.

LEAS CAN RECEIVE SAFA AND OTHER FEDERAL PAYMENTS FOR THE SAME FEDERAL PROPERTY

As agreed with our requesters, we are providing the following information on some LEAs we reviewed who received both Federal impact aid funds and funds from other Federal sources for the same Federal properties because of the properties' tax-exempt status.

The intent of section 3 of Public Law 81-874 is to offset the financial burden placed on LEAs because they provide free education for children residing on tax-exempt Federal property or residing with a parent employed on such property. There are other programs under which the Federal Government makes payments to States and local governments because of the presence of tax-exempt Federal properties, and some of these payments are also used in financing educational costs. Several LEAs we reviewed received such payments for Federal properties. The most common of these payments were from the National Forest funds, authorized under 16 U.S.C. 500, and from the Taylor Grazing Act funds authorized under 43 U.S.C. 315(i).

The National Forest Fund, administered by the Department of Agriculture, consists of revenue derived from national forests through timber sales and other activities. The Department returns 25 percent of such revenues to States to benefit the county public schools and roads in which the national forests are located.

The Taylor Grazing Act Fund, administered by the Department of the Interior, receives 12.5 percent of fees collected for using Federal land for grazing purposes and returns it to States for, among other things, the benefit of public schools in the counties in which the land is situated. These funds are intended to compensate local governments because the properties in question are no longer available for private ownership and thus are not taxable.

Before a 1968 amendment to Public Law 81-874, other Federal payments made on the basis of Federal property which had children associated with it had to be deducted from SAFA payments made on the basis of the same property. This provision was to avoid duplicating Federal payments. As a matter of administrative efficiency and convenience, the law provided that no deduction needed to be made from SAFA payments unless the other Federal payments exceeded $1,000.

In 1968 the law was amended to provide that other Federal payments made on the basis of the tax-exempt status of Federal property which had children associated with it could be received by LEAs along with their SAFA payments. The legislative history is silent regarding the rationale for this change.

In fiscal year 1967, according to OE, the Government saved over $5 million as a result of deducting from LEAs' SAFA claims the payments they received from other Federal agencies for the same Federal properties.

In fiscal year 1973 two LEAs we reviewed received Federal funds of $57,150 and $48,948 derived from national forest revenues. Their SAFA claims for that year, based on pupils of parents employed on the same Federal properties, amounted to $3,949 and $3,904, respectively. Another LEA received $70,453 in Federal payments from national forest revenues, grazing revenues, and other Federal sources. Its SAFA claim for the same properties was $84,453.

One State not included in our review received considerable national forest funds. In 1972, for example, 24 counties received $28.5 million in such funds for public roads and schools. In 1972 the LEAs in those same counties received $1.3 million in SAFA payments on the basis of persons working in national forests.

IMPACT AID FUNDS USED TO SUPPLANT STATE FUNDS

For fiscal year 1973--the most recent year with complete data available for review--impact aid funds, by law, could not be paid to any LEAs in States which considered such funds as local resources in determining eligibility for or computing the amount of State aid to be given to individual LEAs. This provision was intended to prevent States from using impact aid funds to supplant State funds.

The Education Amendments of 1974 amended title I of Public Law 81-874--effective in fiscal year 1976--to permit any State which has an acceptable plan to equalize expenditures for public education to consider impact aid payments in determining the relative financial resources available to LEAs. If the State does not have such an equalization plan, considering impact aid payments as local resources in this way will result in reducing or terminating payments. OE field representatives are required to review annually

educational aid programs for each State in which LEAs apply for Public Law 81-874 funds to determine whether the State is considering impact aid funds as local resources. We found two States where this occurred.

One State appeared to have been violating the law's supplant provision because two of its four educational aid programs reduced State aid to those LEAs receiving SAFA funds. The State provides financial assistance to LEAs through (1) a foundation aid program, (2) an incentive program, (3) a program using flat grants for such things as special and vocational education programs, and (4) a supplemental minimum-guarantee program designed to insure that each LEA has sufficient revenue to provide a minimum per-pupil expenditure set by the State.

The majority of the financial assistance is distributed under the foundation aid program, which did not violate the law's supplant provisions, nor did the grants for special and vocational education programs.

The State, in computing its supplemental program aid for individual LEAs, included SAFA payments as local revenue which reduced the aid to qualifying LEAs by the amount of such payments. The State has operated this program since school year 1971-72.

To illustrate the effect of this practice, one LEA which received both State supplemental and SAFA funds would have been entitled to $8,772 more from the State in fiscal year 1972 had SAFA funds not been included as local revenue. The LEA had $249,963 in local, State, and Federal revenue, or about $569 for each of the 439 pupils in ADA. Because the State's minimum guarantee was $575 per pupil, the LEA received $2,463 under the supplemental program, about $6 per pupil. If the LEA had not been required to include SAFA funds as local revenue, it would have been entitled to $11,234, about $31 per pupil.

We estimated the amounts by which State entitlements and payments to LEAs under the State minimum guarantee program would have been increased if SAFA funds had not been considered as local revenue in fiscal years 1972 and 1973. Our estimate is somewhat understated because we did not identify all LEAs which might have qualified for these program funds had SAFA funds not been included as local revenue. The following table shows the estimated increased State aid the

LEAs would have received if SAFA funds had not been included as local revenue:

Fiscal year	Number of LEAs	SAFA receipts	Increase in State minimum guarantee Entitlements	Increase in State minimum guarantee Payments
1972	22	$ 280,851	$ 280,851	$280,851
1973	31	1,426,736	1,426,736	78,180

In fiscal year 1973 the State did not appropriate enough funds to reimburse LEAs for their full entitlements under the State's program. Consequently, the State prorated the funds available to eligible LEAs. The $78,180 increase shown above is our estimate of the increase in prorated funds that LEAs would have received from State appropriated funds had the State not considered the SAFA funds as local revenues.

During our review we brought this matter to the attention of OE program officials. On February 23, 1976, they said they would look into it and take appropriate corrective action once implementation of the 1974 Education Amendments is completed.

Another State also appeared to have been violating the supplant provision of Public Law 81-874. This State had several formulas for distributing State aid. The primary formula, under which most State funds were distributed, did not consider SAFA payments, but a supplementary formula did. Although the State had been using the supplementary formula since fiscal year 1971, OE was not aware of the violation until December 1973.

OE obligated about $40.4 million in Public Law 81-874 funds to the LEAs in this State for fiscal years 1971-73 and paid out all but $530,000 before learning of the possible violation. OE was withholding this amount at the time of our fieldwork pending the disposition of issues raised in an LEA's litigation with the State. The LEA was suing to obtain State aid funds withheld because the State considered impact aid funds in allocating State aid funds.

Public Law 81-874 was amended in fiscal year 1974 to grant a 1-year waiver of the law's supplant provision to all States which adopted a program for equalizing educational revenue available to LEAs after June 30, 1972. OE concluded that this State was ineligible for the waiver in fiscal years

1971-73, but was eligible in fiscal year 1974 and thus will make payments to LEAs claiming assistance for that year.

CONCLUSIONS

Nearly all the LEAs claimed either more or less than the eligible number of pupils. In total these LEAs overclaimed a net of $578,224--slightly less than 1 percent of the total assistance. Although OE caught many errors in reviewing the LEAs' claims, others resulted in net overpayments of $212,133.

We identified several areas in which OE regulations and instructions for determining eligibility need to be clarified. They are not specific for determining what constitutes being employed on Federal property; thus payments made do not reflect an attempt to reimburse LEAs because of the tax-exempt status of the property. The parent-pupil survey form should provide documentation to determine that a child with a civilian parent employed or working on Federal property actually resides with the federally connected parent. OE's allowing claims for children with a uniformed services parent without providing adequate documentation to determine if the child is a dependent of that parent does not seem to be consistent with the intent of the impact aid program. Because all States did not compute ADA in the same way and some LEAs reported total ADA that must be considered an estimate, OE should adopt an alternative procedure to help insure that ADA estimates are made on the same basis.

Some LEAs received Federal payments from both impact aid funds and other Federal sources for the same Federal properties because of the properties' tax-exempt status.

Two States appeared to have been using section 3 funds to supplant State funds violating Public Law 81-874. Closer review of State aid allocation formulas should be emphasized.

RECOMMENDATIONS

We recommend that the Secretary of HEW direct OE to strengthen administrative controls over the impact aid program by:

--Clarifying the requirements that a parent must meet to be considered employed on Federal

property so that payments to LEAs will better relate to the property tax-exempt status.

--Requiring adequate documentation from LEAs to determine whether a child with a civilian parent employed or working on Federal property actually resides with the federally connected parent.

--Requiring adequate documentation from LEAs to determine whether a child is a dependent of a uniformed services parent.

--Adopting an alternative procedure for States and LEAs that have different procedures for computing ADA to help insure that ADA estimates are made on the same basis.

--Reviewing State aid allocation formulas relative to the law's supplant provision.

AGENCY COMMENTS AND OUR EVALUATION

HEW commented on matters discussed in this report in a July 23, 1976, letter. (See app. III.) It concurred with the need to clarify the term "employed on Federal property" and will rewrite instructions which have been issued for use by LEAs and program staff to make them more definitive.

As for determining whether a child of a civilian parent employed or working on Federal property actually resides with that parent, HEW said that the instructions in this area would be strengthened but that the situation could be appreciably improved only through extensive field reviews with a larger regional staff.

HEW said that the statute expresses no requirement of dependency for a child of a uniformed services parent, and that it is thus not feasible to seek such information. We do not fully agree. As discussed on page 12 of this report, the legislative history of Public Law 81-874 suggests that to be eligible the child should be a dependent of a uniformed services parent. As for information on dependency, it could be obtained by a question on the parent-pupil survey form asking whether or not the child is a dependent of the parent on active duty in the uniformed services.

HEW agreed that using an alternative procedure for computing ADA for States and LEAs would simplify administration

of the law and could lessen ADA computational errors. HEW said it will study ways to recommend modifying the law to permit the use of an alternative procedure.

As for reviews of State aid reallocation formulas relative to the supplant provision of the law, HEW agreed with the importance of these reviews and said that with the passage of Public Law 93-380, indepth examinations of State aid programs will occur.

General comments

In addition, HEW provided several general comments concerning the matters discussed in this chapter. These comments and our response are discussed individually as follows.

HEW said that some of the procedures and conditions in effect during our review of Public Law 81-874 in fiscal year 1973 are no longer the same due to the complex changes made by Public Law 93-380, which was approved August 21, 1974. It said that these changes with few exceptions became effective in fiscal year 1976.

Although some procedures have changed and we have acknowledged this on page 1 of this report, we believe our discussions on OE's procedures for determining eligibility and its instructions and procedures for determining payment rates are still pertinent to the program.

Regarding our statement that OE's regulations and instructions for determining eligibility need to be clarified and better enforced, HEW indicated it believes the instructions are in accord with the intent of the law. HEW said that increased manpower in its regional offices would help in preventing LEAs from overclaiming and underclaiming numbers of federally connected pupils in their applications.

As indicated by our findings on page 8, we believe the instructions and regulations need to be clarified. Clear and understandable instructions and regulations are essential for the management of the program regardless of the availability of manpower.

HEW agreed with our discussion on page 8 that the terms "working on" and "employed on" are used synonymously. It said the understanding of many applicants and regional program personnel has been that they should consider a pupil an eligible federally-connected pupil if the parent is working on or employed on Federal property on the date the LEA takes

its parent-pupil survey. It said the basis for adopting the "one-count system" is that it provides an administrative tool in order to determine the number of children in ADA with parents employed on Federal property on one specific date in the school year regardless of the number of parents who may have been working on or will be working on this same Federal property for the balance of the year.

We believe that there is a difference between being employed on and working on Federal property, as indicated on page 9 of this report. Also, we believe that good management would dictate that an adequate definition of being "employed on Federal property" be developed, regardless of the administrative tool used, so that payments to LEAs will better relate to the property tax-exempt status.

Regarding LEA instructions for seeking eligible pupils, as noted on page 10 of this report, HEW said an OE review of the facts indicated that:

--While a school district did in fact instruct teachers to count as federally-connected pupils whose parents may drive a truck through a military base on the date of the survey, a review of the records did not uncover that any such pupils were claimed; the school district has agreed to delete such instructions in the future.

--The records for the school district alleged to have suggested that a music teacher arrange to be working at a school located on Federal property on the survey date did not indicate that any such children of a music teacher or any other questionable children were claimed.

Regarding our finding that a school district claimed children of loggers without documentation showing that the parents were working more than 50 percent of their time on Federal property, HEW said steps have been taken to assure that this school district will maintain proper records hereafter. It said the school district obtained the proper certification on its 1974-75 application; its survey form for the 1975-76 school year has a special certification pertinent to lumbering activities.

Our purpose in including in the report the first two examples above was to show how LEAs have interpreted the

terms "employed on" and/or "working on" Federal property and show that pupils could have been claimed. We are pleased that corrective action has been taken on these matters.

CHAPTER 3

SAFA PAYMENT RATES

The Office of Education instructions for selecting comparable local educational agencies to determine the School Assistance in Federally Affected Areas payment rates provide no assurance that the LEAs selected are in fact comparable. Furthermore, OE procedures for approving payment rates are not consistent with its instructions.

Although LEA contribution rate data is the basis for selecting comparable LEAs to determine SAFA payment rates, OE does not periodically review the revenue sources reported as local. Thus, OE has no assurance that rates calculated using this data are reasonable and consistent among States.

OE allows some applicants to select as comparables other applicants which have a large percentage of federally connected children in their school enrollments. This practice appears to be inconsistent with the legislative objective of removing the influence of federally connected children on per pupil cost calculations in selecting comparables, thus estimating what costs would have been in the LEA if there were no Federal presence.

TYPES OF PAYMENT RATES

Impact aid is intended to compensate the LEA because federally connected children increase school enrollment without proportionately increasing the local tax base.

The LEA's actual educational costs are not used for determining payment rates because federally connected children influence the revenues available and the amount which the LEA can spend on education. To avoid this problem, the law provides that payment rates be based on the amounts private property owners in generally comparable LEAs pay toward the cost of educating children. The law also establishes a minimum payment rate which is equal to the higher of either one-half the national or one-half the State average expenditure per pupil. However, in no case may the minimum rate exceed the State average expenditure per pupil. The amount of aid provided to an LEA may not be based on a rate lower than the applicable minimum rate.

OE, after consulting with the SEAs and LEAs, determines which LEAs are in its judgment generally comparable to the applicant.

The June 20, 1950, House Report No. 2287, which accompanied the original legislation, contains the following statement about comparable LEAs:

> "The determination as to the amount of payment to be made with respect to each child depends in part, as has been said, upon a determination by the Commissioner of Education as to which school districts within the State are most nearly comparable to the school district of the educational agency to be compensated. In the last analysis, a school district's current expenditures are determined by the amount of money it has available. In a school district providing education to large numbers of children connected with Federal property, the current expenditures will be affected by the fact that the Federal Government is not contributing its proper share of local school revenues. Hence, in arriving at a sum which approximates the cost of providing education to the Federal children in question, it would not be reasonable to consider merely current expenditures met from local revenues of the district in question.
>
> "Among other things the Commissioner would first consider similarity of classification under State law, and then other relevant factors, such as number and kind of school population, tax resources, tax effort, costs of school maintenance and operation, and the like."

HEW regulations provide that SAFA payment rates be established, subject to the minimum rates, by either

--grouping all LEAs within a State into generally comparable groups and basing each applicant's payment on its group's average expenditure per pupil from local revenues or

--individually selecting comparable LEAs for each applicant and basing each applicant's payment rate on the comparable LEAs' average expenditure per pupil from local revenues.

The comparability criteria are the same in both procedures; both require OE to compute payment rates using data compiled by the State educational agency or LEA on expenditures paid from local revenues of comparable LEAs. This payment rate equals the average expenditure per pupil in average daily attendance paid from local revenues--hereafter referred to as the local contribution rate--of the LEAs which are comparable to the applicant.

The major distinctions between the two procedures are the number of comparable LEAs used to determine the payment rate and the input an individual LEA has in determining the rate. In most States the group procedure compares an applicant to 50 or more other LEAs. The applicant, however, once placed in a group of comparable LEAs by the State, must claim the group average rate or the minimim rate alternative. In contrast, the individually selected procedure usually compares an applicant to at least five other LEAs. This procedure generally gives the applicant more latitude in determining the payment rate because the applicant either itself or in consultation with the SEA selects the five LEAs to which it is compared.

Each SEA selects the procedure to be used in its State and all LEAs must then use that procedure in arriving at a payment rate to be submitted to OE for approval. If in using the established procedure an individual LEA's rate is less than the applicable minimum rate, the LEA receives the minimum rate. In some States educational costs are such that most LEAs claim a minimum rate, and thus neither procedure is used. Of the 17 States in our review, 4 used the grouping procedure, 8 used the individually selected procedure, and 5 used minimum rates exclusively.

OE SHOULD REVIEW THE DATA USED TO COMPUTE PAYMENT RATES

Although local contribution rate data submitted to OE is the basis for selecting comparable LEAs to determine SAFA payment rates, OE does not periodically review the revenue which LEAs and SEAs report to determine if it is received from State or local sources. What constitutes local revenue is subject to interpretation because LEAs receive revenue from many sources under a wide array of Federal, State, and local statutes. Such interpretations can affect the amount of SAFA funds received.

The local contribution rate is an important factor in computing SAFA payment rates. OE allows LEAs to determine their rates using the following formula:

$$\text{Local contribution rate} = \left(\text{Total current expenditures} \times \frac{\text{Local revenues}}{\text{Total revenues}}\right) \div \text{Total ADA}$$

OE approves payment rates using LEA contribution rate data, but OE officials said they do not periodically review this data's accuracy.

HEW defines local revenue as tax funds from real estate or other sources within the LEA boundary which is available for its use. Local revenues include (1) funds collected by another governmental unit as an agent for the LEA and (2) funds collected by another governmental unit but shared with the LEA in proportion to the amount collected from within the LEA. According to HEW's definition, local revenues are distinguished from State revenues in that the latter are distributed to LEAs in amounts often disproportionate to the amounts actually collected from within the LEAs' boundaries.

One State's definition of local revenue, as indicated by the data submitted to OE, included more revenue sources than that derived by strictly applying HEW's definition. The OE official responsible for reviewing the data said he generally accepted the State's interpretation of the items constituting local revenue and verified only that local revenue reported by applicants was consistent with that reported to the State.

SEA officials in this State categorized 12 different sources of revenue as local in preparing the data submitted to OE for calculating SAFA payment rates. Five of the sources were classified by the State as "State-dedicated revenues," and the other seven sources were classified as "revenues from legislative appropriations."

The State-dedicated revenues, such as automobile, boat, and mobile home license fees, appear to be State revenues according to HEW's definition that the State collects the funds and distributes them to the LEAs in different proportions from those collected within the LEAs' boundaries. These revenues comprised about 18 percent of the revenues reported to OE for 40 comparable LEAs for fiscal year 1973. We did not perform this review in all States visited, but SAFA payments to LEAs in this State would have been reduced by about $138,000 had these revenues not been classified as local.

OE INSTRUCTIONS NOT ADEQUATE FOR DETERMINING COMPARABLE LEAS

OE instructions contain criteria for selecting comparable LEAs which provide for legal classification, grade levels, size as measured by cost per pupil in ADA, geographical size, population density, industrialization, current revenues, aggregate property values, percent of pupils transported, and other relevent factors.

OE instructions for determining which LEAs within a State are generally comparable to the applicant are inadequate, and its procedures for approving the SAFA payment rates are not consistent with its instructions. A discussion of both procedures for determining comparable LEAs and the problems associated with them follows.

Procedure involving individually selected comparable LEAs

OE instructions stipulate that for LEAs using this procedure at least five generally comparable LEAs within the State are to be selected in accordance with the following criteria.

1. Legal classification.
2. Total number of pupils in ADA.
3. Cost per pupil in ADA:
   a. Paid from local sources of funds only.
   b. Paid from all sources of funds.
4. Grade levels maintained.
5. Percent of pupils transported.
6. Pupil-teacher ratios.
7. Assessed property valuation per pupil in ADA.
8. Ratio of assessed valuation to total valuation of property.
9. Tax rate levied on real property for school purposes:
   a. For current expenses only.
   b. For current expenses, debt service, and capital outlay.

10. Curriculum offered.

11. Teacher salary schedule.

12. Economic characteristics, such as industrial, residential, or agricultural.

Information on the first nine criteria must be submitted to OE for each LEA selected as comparable. OE instructions require SEAs to compile the information on these criteria using 2-year-old data because some of the information cannot be gathered on a more timely basis. Although the instructions also request applicants to consider the last three criteria, neither the SEAs nor the LEAs submit information on these because they are not included on OE's application form.

OE instructions further stipulate that LEAs should preferably not select other SAFA applicants as comparables. If other SAFA applicants are selected, the LEA must explain and describe the extent of the Federal impact in the comparable LEAs and compare it with its own.

OE has not defined tolerances that applicants can use in selecting comparables which are dissimilar in several criteria or which do not otherwise meet OE requirements for comparability. Although OE instructions state that cost per pupil is the primary criterion for determining comparability, neither the regulations nor the instructions specify what weight should be given to the remaining criteria. Consequently, there is no consistent or systematic procedure for selecting comparables or for OE to use in approving selections.

Most of the LEAs we reviewed that individually selected comparable LEAs did not attempt to find those LEAs which were generally comparable in all criteria specified in OE instructions, nor did OE. OE permitted some LEAs to choose other SAFA applicants as comparables without the required explanation and comparison of Federal impact.

The method of selecting individually comparable LEAs varied in the eight States we visited which used this procedure. In four States the LEAs selected their comparables from a list prepared by the SEA and submitted their selections to OE through the SEA. In the other four, the selections were made by the SEAs, sometimes with the LEAs' concurrence. Generally, the applicant LEA's local contribution rate was the principal criterion used in making selections. Typically,

five LEAs were selected that had combined average local contribution rates close to the applicant's. In some States secondary consideration was given to finding LEAs with similar ADA and grade structure. In only one State were each of the nine criteria applied in an attempt to find five LEAs which most closely compared to the applicant.

In six of the eight States, the data the SEAs prepared and submitted to OE was incomplete and excluded information on one or more of the nine criteria. OE officials said that because they generally did not use all the data submitted they did not rigorously enforce this requirement. Furthermore, although three of the SEAs reported data on all LEAs in their States, another reported data on only 9 percent of its LEAs and two reported data on less than 52 percent of their LEAs, with no explanation to OE of which LEAs were excluded or why.

OE does not require that data be submitted on all LEAs in each State even though OE officials acknowledged that such data would be necessary for them to determine whether other LEAs in the State were more comparable to an applicant than those selected.

OE procedures for approving comparable LEAs

OE procedures for approving SAFA payment rates derived using individually selected comparable LEAs are not consistent with its instructions.

According to OE officials, developing procedures for selecting comparable LEAs by all or even most OE criteria would be difficult because a major difference in any one criterion could greatly affect comparability. They said that because routine procedures for applying the criteria cannot be easily developed, a detailed analysis of each applicant using the individually selected comparable LEA method would be necessary to insure that they are being reasonably applied. They said that such analyses are not made because of lack of staff.

Thus, rather than reviewing the comparability of individually selected LEAs, OE reviews only the payment rate resulting from the applicant's selection of comparables. Although not mentioned in its instructions for selecting comparable LEAs, OE compares these payment rates to the applicant's local contribution rate for nonfederally connected children. OE computes the local contribution rate for nonfederally connected children by dividing an applicant's local

revenues by its ADA minus (1) the ADA of all children living with a parent both employed and residing on Federal property (LEAs are presumed to receive no local revenue for educating these children) and (2) one-half the ADA of children living with a parent either employed or living on Federal property (LEAs are presumed to receive only 50 percent of normal local revenues for educating these children).

This method of adjusting ADA is consistent with the major premise underlying section 3 of Public Law 81-874, as stated in the 1950 House Report No. 2287, which accompanied the original legislation:

> "* * * Approximately half of the real-property tax required to meet the local share of the cost of educating a child is derived from taxation on residential property * * * and half from taxation on the factories and offices where their parents work. The local educational agencies derive no such revenue in the case of a child who lives on tax-exempt Federal property and whose parent is employed on such property. * * * Where a child lives on non-Federal property but the child's parent is employed on tax-exempt Federal property, the local educational agency will derive on the average half as much in revenue as it would in the case of other children.* * *"

OE officials told us that they could not use local contribution rates for nonfederally connected children for all LEAs because some receive substantial local revenues even though most of the children enrolled in their schools are federally connected. OE uses an LEA's local contribution rate for nonfederally connected children as its only measure of the amount the LEA should be paid per federally connected child under individually selected LEAs. As a guideline, OE will usually approve a local contribution rate for federally connected children if it is not more than $50 greater than the applicant's local contribution rate for nonfederally connected children, regardless of the applicant's selection of comparable LEAs. However, OE has not set a lower limit on this guideline and will approve an applicant's selection of comparables even if the resulting payment rate is well below the applicant's local contribution rate for nonfederally connected children.

Although the non-Federal local contribution rate is the major criterion OE uses to measure the reasonableness of, and to approve the payment rate resulting from, an applicant's selection of comparable LEAs, this criterion is not

stated in OE's regulations or instructions. In fact, OE's instructions stipulate that all children, not just nonfederally connected children, be considered in determining the local contribution rate. Few of the LEAs we reviewed used this criterion in selecting comparables.

One LEA, in requesting a payment rate in accordance with OE's instructions, was told, after its request had been disapproved several times, that its payment rate must approximate its non-Federal local contribution rate. In some States LEAs, because of SEA-designated procedures for selecting comparables, generally chose comparables which resulted in rates well below the amount permissible if they had used the local contribution rate for nonfederally connected children. In these States the LEAs which enrolled the highest percentage of federally connected children generally received the lowest payment rates in relation to their non-Federal local contribution rates. In other States, some LEAs claimed and were reimbursed at rates above the maximum OE usually allows.

Results of using individually selected comparable LEAs to determine SAFA payment rates

Using individually selected comparable LEAs to determine SAFA payment rates produced widely varying results in the LEAs we reviewed. The criterion OE uses in approving rates--local contribution rate for nonfederally connected children--is designed to provide aid to an LEA for the approximate amount it is willing to pay to educate its nonfederally connected children. However, because OE did not consistently apply this criterion, some payment rates were considerably above the local contribution rates for nonfederally connected children. Moreover, because OE does not have a lower limit on its criterion, some LEA payment rates were considerably below local contribution rates for nonfederally connected children.

Although OE usually will not approve a payment rate if it is greater than $50 above the applicant's local contribution rate for nonfederally connected children, five LEAs received such rates. Four received payment rates more than $100 above their local contribution rates. One LEA, for example, requested a $1,075 payment rate per pupil based on its selection of five comparable LEAs, which OE disapproved because it was more than $600 above the LEA's local contribution rate for nonfederally connected children. The selection of comparable LEAs was changed, and the payment rate

approved was $895--still about $421 above the local contribution rate for nonfederally connected children.

In most cases, however, LEAs were required to revise their selection of comparable LEAs to obtain a rate within OE's limitation. For example, one LEA requested a $642 payment rate--based on five comparable LEAs--which OE disapproved because it was about $108 above the LEA's local contribution rate for nonfederally connected children. A revised request for a $612 payment rate--about $78 above the local contribution rate--also was disapproved. The LEA later revised its selection of comparable LEAs and requested a $564 payment rate--about $30 above the local rate--which was approved.

Because OE has not established a lower limit for its criterion for a local contribution rate and generally has not told the LEAs to use this rate as a criterion, some LEAs requested rates considerably below their local rates. Nineteen LEAs requested payment rates for fiscal year 1973 below their local contribution rates for nonfederally connected children. OE approved their requested rates even though 14 LEAs used payment rates ranging from $53 to $792 below their local contribution rates for nonfederally connected children.

In addition to the inconsistencies discussed above, OE prefers, but does not require, applicants to select comparable LEAs that are not also SAFA applicants. Those LEAs we reviewed that selected as comparables other SAFA applicants did not explain and describe the extent of the Federal impact in the comparable LEAs and compare it with its own, as stipulated in OE's instructions.

As noted previously, the comparable LEA method of determining rates was established to eliminate the influence of federally connected children on locally financed per pupil expenditures. Therefore, the LEAs' total enrollments approved by OE as comparable to an applicant's should not have a large percentage of federally connected pupils. Otherwise the legislative objective of the rate determining procedure would not be met in that the effect of federally connected children on per pupil cost calculations would still be present.

In one State the SEA sent fiscal year 1973 applicants a list of 12 LEAs to be used in selecting comparables. There were 136 LEAs in the State, 65 of which did not receive SAFA assistance under section 3. Of the 12 LEAs on the list, 11 were SAFA applicants and 8 of these 11 applicants had from 27 to 41 percent of their pupils federally connected. Eight

of the nine applicants in the State claiming a comparable rate selected at least one of the eight LEAs as comparable and three applicants restricted their selections to only these LEAs.

Grouping procedure for selecting comparable LEAs

OE regulations on the LEA grouping procedure of selecting comparable LEAs state that the SEA should group the LEAs according to legal classification or some other OE-approved factor. SEAs are required to further divide the groups if additional division would result in greater comparability. These further divisions are to be based on grade level, size as measured by total ADA, geographical area, density of population, industrialization, current revenues, aggregate value of property, and other relevant factors. OE instructions neither define acceptable tolerances to use in selecting comparables nor specify what weight should be given to the various factors and therefore are inadequate for determining whether LEAs in a group are comparable.

Methods of grouping comparable LEAs varied

Of the four States we reviewed which used the grouping method, two used legal classification as the sole basis for grouping, one used only ADA, and one used legal classification in combination with other factors. Following is a description of the procedures used in fiscal year 1973.

State A--311 LEAs were in one group based on their legal classification as unified school districts.

State B--1,157 LEAs were divided into 12 groups according to ADA. LEAs in nine of these groups claimed the minimum rate, one-half the national average expenditure per pupil.

State C--1,138 LEAs were placed into one of five groups based on legal classification--elementary school districts, high school districts, unified school districts, community colleges, and county superintendent schools (special-purpose schools administrated by superintendents).

State D--281 LEAs were placed into one of four groups--all elementary school districts, except those in two cities; elementary school districts in two cities; all high school districts, except those in two cities; and high school districts in the two cities.

OE is responsible for determining whether LEAs placed in such groups are generally comparable but has no record of how or on what basis these grouping methods were originally established and approved. Furthermore, OE officials did not know when the methods were last reviewed for reasonableness. SEA officials responsible for submitting group data to OE were unaware of any review since the methods were adopted.

CONCLUSIONS

Although local contribution data is the basis for computing SAFA payment rates, OE does not periodically review the revenue which LEAs and SEAs report to determine if it is received from State or local sources. Thus, OE has no assurance that the rates calculated are reasonable.

OE instructions for selecting comparable LEAs to determine SAFA payment rates provide no assurance that the LEAs selected are, in fact, comparable. While the cost per pupil is a critical criterion for determining comparability, neither the regulations nor the instructions specify what weight should be given to other criteria. Moreover, OE has not established ranges for each criterion to assist SEAs or LEAs in determining comparability. Both of these factors are needed, regardless of the comparable LEA procedure used to make selection of comparable LEAs consistent.

OE procedures for approving rates from individually selected comparable LEAs are not consistent with its instructions for selecting comparable LEAs. It generally does not review the comparable LEAs to determine whether they were selected in a manner consistent with its criteria but compares the resulting payment rates to the applicants' local contribution rates for nonfederally connected pupils. Because the local contribution rate for nonfederally connected pupils is not a criterion stipulated in OE instructions or regulations, few of the LEAs used it in selecting comparable LEAs.

The criteria which LEAs in some States used were such that LEAs tended to select comparables in a manner re-

sulting in payment rates well below their local contribution rates for non-Federal pupils. Although OE collects much data on other criteria which LEAs and SEAs should consider in selecting comparables, it uses only the local contribution rate for nonfederally connected pupils in determining comparability and is, therefore, not complying with its own instructions and regulations. Using the local contribution rate for nonfederally connected pupils as a sole criterion for determining comparability of LEAs does not accomplish the objective of this procedure.

In addition, OE allowed some LEAs to select as comparables other SAFA applicants without providing the required explanation and comparison of Federal impact. Because the comparable LEA procedures are intended to remove the influence of federally connected children from per pupil cost calculations, OE should require that applicants select as comparables only those LEAs that are not receiving SAFA aid or should determine an alternative procedure to remove the influence of federally connected children from per pupil cost calculations.

OE has not periodically reviewed the States' grouping procedure for selecting comparable LEAs to insure that LEAs in each State are grouped with generally comparable LEAs. Because the manner of grouping influences SAFA payment rates, such reviews are necessary to insure that payment rates are based on comparable LEAs.

RECOMMENDATIONS

We recommend that the Secretary of HEW direct OE to:

--Review the revenue which LEAs and SEAs report to determine if it is received from State or local sources.

--Specify the weight that should be given to its published criteria and establish ranges for each criterion to assist in compiling the data necessary for selecting comparable LEAs.

--Develop procedures for approving Federal payment rates based on comparable LEAs which are consistent with its instructions for selecting such LEAs.

--Require that applicants use as comparables only those LEAs that do not receive SAFA aid or determine an alternative procedure to remove the influence of federally connected children from per pupil cost calculations.

AGENCY COMMENTS AND OUR EVALUATION

HEW concurred with our recommendation to review revenue which LEAs and SEAs report to determine if it is received from State or local sources, but indicated that manpower in its regional offices cannot fulfill its present workload, which includes indepth analysis of revenues.

As for specifying the weight that should be given to its published criteria and establishing ranges for each criterion, HEW indicated that it recognized the need for study of this problem, and if the use of a weighting system is deemed advisable it will change existing regulations.

We do not believe that HEW's comments are responsive to our recommendation concerning the development of procedures for approving Federal payment rates based on comparable LEAs which are consistent with its instructions for selecting such LEAs. HEW said that present procedures provide for a review of the criteria for selecting comparable LEAs. As indicated on page 33, OE instructions to LEAs for arriving at a comparable payment rate are different from the criteria it uses to approve such a rate. On pages 34-35 we state that although the non-Federal local contribution rate is the major criterion OE uses (1) to measure the reasonableness of and (2) to approve the payment rate resulting from an applicant's selection of comparable LEAS, this criterion is not stated in OE's regulations or instructions. In fact, OE's instructions stipulate that all children, not just nonfederally connected children, be considered in determining the local contribution rate.

HEW indicated that to the extent possible it requires applicants to use as comparables only those LEAs that do not receive SAFA aid. It said that in some States it is difficult to select comparable LEAs which are not federally affected to some degree. Regardless, we believe that an alternative procedure should be developed to remove the influence of federally connected children from per pupil cost calculations.

CHAPTER 4

ANALYSIS OF ECONOMIC IMPACT OF FEDERALLY CONNECTED CHILDREN ON LEAS

Attempts have been made in the past by the Department of Health, Education, and Welfare to measure the economic impact of federally connected school children on local educational agencies. The Congress from time to time has considered various alternative eligibility and payment provisions to reflect different economic considerations of this effect. However, no objective measure of the economic burden has ever been set forth.

To respond to the congressional request for an analysis of the economic impact of federally connected children on LEAs, we calculated the tax increase that would be needed if LEAs did not receive payments under the impact aid program. This could be considered an indirect measure of the burden that federally connected children impose on LEAs. We made statistical analyses of the impact of federally connected children on 1,671 LEAs in 16 States for fiscal year 1973 and found that without impact aid entitlements:

--48 percent of the 1,671 LEAs would need property tax increases of less than 5 percent; another 18 percent of the LEAs would need property tax increases of 5 to 10 percent; and, at the upper extreme, 15 percent of the LEAs would need property tax increases of 25 percent or more.

--An increase of less than $25 in annual local property taxes on a home with a market value of $40,000 would result for 48 percent of the LEAs; an increase of $25 to $50 would result for 25 percent of the LEAs; and, at the upper extreme, an increase of $100 or more would result for 15 percent of the LEAs.

By applying alternative eligibility and payment provisions to the program, total impact aid entitlements could have been reduced between $68 million and $351 million, using fiscal year 1973 as a basis.

ANALYSES OF INDIRECT MEASURES OF BURDEN

These analyses were based on information in claims totaling $188 million, made by the 1,671 LEAs in 16 States for

aid under title I, sections 2 and 3(a) and 3(b) of Public Law 81-874 for fiscal year 1973. Section 2 allows for payments to LEAs that have had large amounts of property removed from the tax rolls through purchase by the Federal Government.

Our analysis does not consider the effects on the program of the provisions of the Education Amendments of 1974, effective in fiscal year 1976, which provide payments for students living in low-rent public housing and handicapped students.

LEAs using the individually selected comparable LEA procedure, as described on page 31, must report on nine criteria for all LEAs in that State. The State also sends this information to OE headquarters for verification of the LEA's selection. For both sections of the law, this information is to include LEA property valuations and tax rates. Because the LEAs we analyzed were not selected on a scientific basis, our review is presented as a case study of 16 States and is not necessarily representative of the entire Nation.

For each LEA we determined how much taxes would have to be increased to replace all or a part of their 1973 entitlements. We compared the percentage of impaction (i.e., percent of federally connected ADA) for the 1,671 LEAs to the percentage of change in taxes that would be necessary because of loss of aid. Our analysis involved:

--Calculation of change in overall LEA tax rate needed to replace impact aid funds withdrawn. (Formula: Change in tax rates = aid withdrawn ÷ assessed property value.)

--Application of the change calculated above to a home with a market value of $40,000. (Formula: Change in taxes = $40,000 X assessment rate X change in tax rate.)

--Calculation of percentage change in taxes by comparing calculated change in taxes to original taxes. (Formula: Percent change in taxes = ($40,000 X assessment rate X change in tax rate) ÷ ($40,000 X assessment rate X original tax rate).)

Our analyses were based on school year 1971-72 valuations for taxable property since this was the latest information available; historical trends in property values indicate

that these values were probably much lower than current valuations. We used 100 percent of the impact aid entitlements in our analyses, which exceeded actual impact aid payments over the past few years by 25 to 30 percent, because appropriations have not been adequate to pay full entitlements. The use of these two factors tends to make our results a conservative estimate of the effect that loss of aid would have because they yield higher estimates of tax changes than would actually be necessary.

We analyzed the impact aid program to determine the effects of changes in eligibility and payment provisions. We considered all 4,581 LEAs in the program for fiscal year 1973. In addition, we analyzed data from the 16 States to determine the relationship between increasing percentages of federally connected children and taxable property values and how such a relationship might be reflected in such school financing indicators as tax rates applied to property values to raise revenue for schools, per pupil expenditures, and ratios of pupils to teachers, Correlation analysis was used to test for relationships between percentages of federally connected students and the other factors listed. Details are given in appendix II.

EFFECT OF WITHDRAWAL OF IMPACT AID FUNDS

Without impact aid entitlements, 48 percent of the 1,671 LEAs analyzed would need property tax increases of less than 5 percent and 18 percent would need tax increases from 5 to 10 percent. Without 3(b) aid only, smaller increases in property taxes would result. An increase of less than $50 in local property taxes on a home with a market value of $40,000 would result for 73 percent of the LEAs without their total entitlements and for 81 percent without their 3(b) entitlements.

Loss of all impact aid entitlements

We compared the percent of impaction (percent of federally connected children to total LEA ADA) to the percent of increase in taxes that would result from loss of all aid. The following tabulation shows the number of LEAs that would be affected and the increases in local property tax rates that would be needed to replace lost aid.

Percent of impaction	0 to 4.99	5 to 9.99	10 to 14.99	15 to 19.99	20 to 24.99	25 or more	Total number of LEAs
0 to 2.99	216	18	3	2	-	3	242
3 to 5.99	415	61	16	2	1	2	497
6 to 9.99	147	109	32	13	6	15	322
10 to 24.99	24	115	90	44	32	69	374
25 or more	-	3	11	26	18	178	236
Number of LEAs affected	802	306	152	87	57	267	1,671
Percent affected	48	18	9	5	5	15	100

The results show that 66 percent of the LEAs analyzed would require tax increases of less than 10 percent to replace impact aid entitlements and 48 percent would require tax increases of less than 5 percent. Entitlements for 802 LEAs requiring less than a 5-percent increase in fiscal year 1973 totaled about $55 million, and entitlements for the 306 LEAs requiring a 5- to 10-percent tax increase totaled about $22 million. Based on full entitlements of about $188 million for the 1,671 LEAs analyzed, about 40 percent of the entitlements were provided for LEAs which would require an increase of less than 10 percent in taxes to replace entitlements.

Although most of the LEAs analyzed would require less than a 10-percent increase in local taxes, 267, or 15 percent, would require an increase of 25 percent or more. Two of the 267 LEAs would require percentage tax rate increases in the thousands. LEAs with more than 25 percent federally connected children accounted for about $75 million, or about 40 percent, of all entitlements for the 16 States analyzed.

Included in the entitlements was money provided under section 2 of the law. Although this type of aid accounted for only a small portion of the total impact aid going to the 1,671 LEAs ($1.3 million out of $188 million), many that receive it would require large tax increases (greater than 10 percent) to replace section 2 aid alone. Twenty-four of the 63 LEAs that had section 2 entitlements received no 3(a) or 3(b) aid, and some of these also would require more than a 10-percent increase in taxes to replace their aid. These LEAs, accordingly, would require larger tax

increases than if only 3(a) and 3(b) entitlements were withdrawn. Because we were particularly interested in measuring the burden that 3(a) and 3(b) children represent, we screened out section 2 aid from the 1,671 LEAs and recalculated the tax changes.

Percent of impaction	0 to 4.99	5 to 9.99	10 to 14.99	15 to 19.99	20 to 24.99	25 or more	Total number of LEAs
0 to 2.99	207	10	1	-	-	-	218
3 to 5.99	419	60	16	1	-	1	497
6 to 9.99	148	110	32	14	4	14	322
10 to 24.99	24	116	91	44	32	67	374
25 or more	-	3	12	26	18	177	236
Number of LEAs affected	798	299	152	85	54	259	1,647
Percent affected	48	18	9	5	4	16	100

The 24 LEAs that received just section 2 aid no longer appear; the 39 others with some section 2 aid would require smaller tax increases, assuming that only 3(a) and 3(b) entitlements were withdrawn. There are 10 fewer LEAs with less than 6-percent impaction that would require greater than 10-percent tax increases. In our opinion, without 3(a) and 3(b) entitlements, LEAs with small impaction levels would not have a major tax increase.

We analyzed section 2 entitlements separately to gauge the effect their loss might have on property taxes. We assumed that just section 2 entitlements were withdrawn from the 63 LEAs that received them and calculated the change in taxes necessary to replace them. As before, the LEAs were grouped by percent of impaction and percent change in taxes.

Percent of impaction	0 to 4.99	5 to 9.99	10 to 14.99	15 to 19.99	20 to 24.99	25 or more	Total
0 to 2.99	14	7	2	2	-	3	28
3 to 5.99	3	1	2	-	-	-	6
6 to 9.99	4	1	1	2	1	-	9
10 to 24.99	2	2	4	1	2	-	11
25 or more	-	5	1	-	-	3	9
Number of LEAs affected	23	16	10	5	3	6	63
Percent affected	37	25	16	8	5	9	100

Sixty-two percent of the LEAs could make up for the withdrawal of section 2 entitlements with less than a 10-percent increase in taxes, and 9 percent of the LEAs would require an increase of 25 percent or more.

Loss of 3(b) entitlements

Because the Congress and the various Administrations have given very little consideration to eliminating aid for 3(a) children, we also tested the effect of the withdrawal of 3(b) entitlements only. Most LEAs could replace their lost entitlements with only a small increase in local property taxes. About 55 percent of the LEAs analyzed would require an increase of less than 5 percent in property taxes, and another 21 percent would require an increase of 5 to 10 percent. Eight percent of the LEAs would require a tax increase of 25 percent or more. Changes in taxes based solely on loss of 3(b) entitlements showed the following results.

Original percent of impaction (based on both 3(a) and 3(b) children)	0 to 4.99	5 to 9.99	10 to 14.99	15 to 19.99	20 to 24.99	25 or more	Total
0 to 2.99	208	10	-	-	-	-	218
3 to 5.99	431	51	14	1	-	-	497
6 to 9.99	167	108	36	4	1	6	322
10 to 24.99	71	149	63	36	20	35	374
25 or more	24	24	40	28	24	96	236
Number of LEAs affected	901	342	153	69	45	137	1,647
Percent affected	55	21	9	4	3	8	100

In the 1,243 LEAs requiring a property tax increase of less than 10 percent, the 3(b) aid alone accounted for about $75 million, about 55 percent, of the total entitlements for the LEAs analyzed. The 901 LEAs requiring less than a 5-percent increase accounted for about $52 million in 3(b) entitlements, about 28 percent of the total entitlements for all LEAs. Again, our estimates of the effect of loss of aid are conservative because we used 100 percent of the entitlements and school year 1971-72 property valuations in our analyses. Whenever funds appropriated for section 3 are not adequate to pay total entitlements, the funds are prorated. Prorations were necessary in fiscal years

1951 and 1955 and in every year since fiscal year 1967. However, even under conservative assumptions concerning loss of aid, our analysis showed that most LEAs would not have to impose major tax increases to replace 3(b) aid.

Dollar effects of loss of impact aid

Because not all States place the same stress on local property taxes to finance education, large percentage changes in taxes are not always large dollar changes and vice versa. Therefore, we calculated the dollar change in taxes on a home with a market value of $40,000 to determine whether stating the effects in this manner would show any major differences from the percentage change analyses. We calculated the annual increase in taxes assuming (1) all aid was lost, (2) sections 3(a) and 3(b) aid were lost but section 2 was retained, and (3) only 3(b) aid was lost.

Annual Dollar Increase in Taxes on $40,000 Home
Full Entitlement Removed

Percent of impaction	$0 to $24.99	$25 to $49.99	$50 to $74.99	$75 to $99.99	$100 or more	Total
0 to 2.99	233	6	1	-	2	242
3 to 5.99	370	113	9	2	3	497
6 to 9.99	138	138	31	13	2	322
10 to 24.99	57	142	73	41	61	374
25 or more	3	13	16	24	180	236
Number of LEAs affected	801	412	130	80	248	1,671
Percent affected	48	25	8	4	15	100

Annual Dollar Increase in Taxes on $40,000 Home
Only 3(a) and 3(b) Entitlements Removed

Percent of impaction	$0 to $24.99	$25 to $49.99	$50 to $74.99	$75 to $99.99	$100 or more	Total
0 to 2.99	215	3	-	-	-	218
3 to 5.99	374	112	9	2	-	497
6 to 9.99	140	137	33	10	2	322
10 to 24.99	58	143	75	42	56	374
25 or more	3	14	17	24	178	236
Number of LEAs affected	790	409	134	78	236	1,647
Percent affected	48	25	8	5	14	100

Annual Dollar Increase in Taxes on $40,000 Home
3(b) Entitlement Only Removed

Percent of impaction	$0 to $24.99	$25 to $49.99	$50 to $74.99	$75 to $99.99	$100 or more	Total
0 to 2.99	216	2	-	-	-	218
3 to 5.99	390	99	7	1	-	497
6 to 9.99	170	121	25	6	-	322
10 to 24.99	120	138	64	28	24	374
25 or more	36	35	38	35	92	236
Number of LEAs affected	932	395	134	70	116	1,647
Percent affected	57	24	8	4	7	100

An increase of less than $50 in annual local property taxes on a home with a market value of $40,000 would result for 73 percent of the LEAs without their total entitlements, and for 81 percent without their 3(b) entitlements. Our analyses showed that a great majority of LEAs--and especially those with low percentages of federally connected children--could replace their entitlements with only small monetary, as well as percentage, changes in local taxes.

Federal impact aid and prosperous LEAs

Throughout the years discussions about impact aid have included objections to the payment of large amounts to more prosperous LEAs, primarily in the suburban areas around Washington, D.C., which are among the most prosperous in the country in terms of per capita income. These LEAs have received large amounts of aid mainly because large numbers of 3(b) children reside in them.

We analyzed the LEAs in one State adjacent to Washington, D.C., and found that they have such high percentages of federally connected children that fairly large increases in taxes would be needed if their aid were withdrawn. For example, one LEA had the largest entitlement among all the LEAs included in our study--$18 million, or almost 10 percent of the total for all 16 states in our sample. Over 40 percent of the children in this LEA were federally connected. Without any impact aid, the annual increase ir property taxes on a $40,000 home would be $153, an increase of over 25 percent. A 23-percent increase would be required to replace just 3(b) aid.

In this State several other suburban LEAs near Washington, D.C., also had large numbers of federally connected children and would require increases in taxes to replace their aid.

Percent of Increase in Taxes--Aid Withdrawn

LEA	Percent of impaction	Total entitlement	Percent of increase in taxes	3(b) entitlement	Percent of increase in taxes 3(b) only
A	27.57	$1,897,613	13.02	$1,897,613	13.02
B	32.47	2,803,155	9.56	2,625,746	8.94
C	31.28	606,510	17.73	606,510	17.73
D	34.43	260,006	11.27	260,006	11.27
E	18.76	1,344,003	8.42	1,335,831	8.36
F	24.67	549,731	10.43	549,731	10.43

The local taxes in these LEAs are generally higher than in other LEAs in the State, so impact aid evidently has not been used to maintain lower taxes.

EFFECT OF CHANGES TO PROGRAM ELIGIBILITY AND PAYMENT PROVISIONS

Previous HEW-financed studies on the effects of federally connected children on LEAs recommended changes in methods for determining eligibility for aid. In general, the proposed changes were intended to develop the concept of paying only for above-average Federal impaction in any LEA. These changes and several variations we developed assume different measures for what constitutes above-average impaction. Following is a presentation of the effect such changes would have on the program. Depending on the alternative provisions applied, the proposed changes could reduce total impact aid entitlements by $68 million to $351 million, using fiscal year 1973 as a basis.

The bases for the alternatives were eligibility characteristics of the SAFA program and various recommendations made by previous HEW-financed studies to more closely reflect sources of tax revenues.

The alternatives were:

1. Eliminate LEAs that are eligible solely on the basis of the number of students living in low-rent public housing but are not receiving aid for these students.

2. Reduce the payment rate for 3(b) students to 40 percent of the rate for 3(a) students.

3. Because LEAs generally are not eligible for impact aid funds unless the number of federally connected students exceeds 3 percent of ADA, make payments only for those children who exceed 3 percent of ADA (absorption).

4. In determining whether LEAs meet the 3-percent eligibility requirement, count 3(b) students at 50 percent and pay for them at 50 percent of the 3(a) rate.

5. In determining whether LEAs meet the 3-percent eligibility requirement, count 3(b) students at 40 percent and pay for them at 40 percent of the 3(a) rate.

6. Count 3(b) students at 50 percent in determining eligibility, pay for them at 50 percent of the 3(a) rate, and require the LEAs to absorb 3 percent of ADA before making any payments for federally connected children.

7. Count 3(b) students at 50 percent in determining eligibility, pay for them at 40 percent of the 3(a) rate, and require the LEAs to absorb 3 percent of ADA before making any payments for federally connected children.

Our analyses of the above alternatives for all 4,581 LEAs which received impact aid in fiscal year 1973 showed that total entitlements of $678.6 million for that year could have been reduced by $68 million to $351 million.

Reduction in Impact Aid Resulting from Application of Various Eligibility and Payment Alternatives

Alternative	Revised entitlement	Reduction
	(millions)	
1. Eliminate LEAs eligible because of low-rent public housing	$610.3	$ 68.3
2. Reduce 3(b) payment rate to 40 percent of 3(a) rate	584.3	94.3

Alternative	Revised entitlement	Reduction
	(millions)	
3. Pay for only that number of federally connected children exceeding 3 percent of ADA	$511.4	$167.2
4. Count 3(b) students at 50 percent for eligibility purposes and pay for them at 50 percent of the 3(a) rate	467.9	210.7
5. Count 3(b) students at 40 percent for eligibility purposes and pay for them at 40 percent of the 3(a) rate	390.0	287.7
6. Count 3(b) students at 50 percent for eligibility purposes and require 3-percent absorption of ADA before making payments for federally connected children	392.0	286.0
7. Count 3(b) students at 50 percent for eligibility purposes, pay for them at 40 percent of the 3(a) rate, and require 3 percent absorption of ADA before making payments for federally connected children	327.0	351.4

The alternative proposals would eliminate much of the aid now received by LEAs with small percentages of federally connected children. For example, under the last five alternatives, because of the 3-percent absorption requirement, LEAs with less than 3-percent federally connected students would no longer receive aid. Under the last two alternatives, LEAs with up to 6-percent federally connected students would no longer receive aid because, after applying the 3-percent absorption requirement and counting the 3(b) students at 50 percent, the resultant count for eligible students would be less than 3 percent. As a result, larger percentages of the remaining aid would be directed toward those LEAs with 25 percent or more federally connected children.

Impact Aid Under Various Eligibility and Payment Alternatives

Alternative	Total aid under alternative	LEAs with 25 percent or more federally connected students	
		Amount of aid	Percent of aid
	(millions)		
Current entitlements	$678.6	$345.0	50.9
1. Eliminate LEAs eligible because of low-rent public housing	610.3	323.0	52.9
2. Reduce 3(b) payment rate to 40 percent of 3(a) rate	584.3	307.4	52.6
3. Pay for only that number of federally connected children exceeding 3 percent of ADA	511.3	324.5	63.5
4. Count 3(b) students at 50 percent for eligibility purposes and pay for them at 50 percent of the 3(a) rate	467.9	321.6	68.7
5. Count 3(b) students at 40 percent for eligibility purposes and pay for them at 40 percent of the 3(a) rate	390.9	284.4	72.7
6. Count 3(b) students at 50 percent for eligibility purposes and require 3-percent absorption of ADA before making payments for federally connected children	392.6	304.3	77.5

Alternative	Total aid under alternative	LEAs with 25 percent or more federally connected students	
		Amount of aid	Percent of aid
	(millions)		
7. Count 3(b) students at 50 percent for eligibility purposes, pay for them at 40 percent of the 3(a) rate, and require 3 percent absorption of ADA before making payments for federally connected children	$327.2	$266.9	81.5

The previous analyses show that entitlements to LEAs under the impact aid program are quite sensitive to change in eligibility and payment provisions. Because above average impaction can have many definitions, the number of LEAs qualifying as above average and the aid they are entitled to can vary considerably. In general, however, as eligibility and payment provisions become stricter, fewer and fewer LEAs are eligible for aid and a higher percentage of aid would be directed toward those LEAs having larger percentages of federally connected children.

FEDERALLY CONNECTED CHILDREN AND LEA PROSPERITY

The basic rationale for impact aid payments is that the Federal Government by owning property and removing it from the tax rolls, creates a burden on LEAs when children of Federal employees are sent to their schools without also providing funds to offset the tax revenues lost because of the reduced tax base. On the other hand, the presence of a Federal installation could increase the economic activity of an area and cause it to be more prosperous. One HEW-financed study concluded that heavily impacted LEAs tend to have lower taxes, lower ratios of pupils to teachers, and higher per pupil expenditures than lightly impacted LEAs.

We analyzed data from 16 States to determine the relationship between increasing percentages of federally connected children and taxable property values and how such relationship

might be reflected in such school financing indicators as tax rates applied to property values to raise revenue for schools, per pupil expenditures, and ratios of pupils to teachers. 1/ Taxes available for schools are the product of some measure of property valuation times a tax rate. Assessment rates determine what proportion of total property values will be taxed, and millage rates are the tax rates applied to the assessed valuations. In our analysis tax rate is defined as the product of the millage rate times the assessment rate and is the rate that would be applied to total property valuation to determine the amount of taxes to be paid. This procedure places all LEAs on the same basic taxing structure.

We further analyzed the data from seven of these States to determine what effect withdrawal of impact aid funds would have on the relationship with tax rates. In general, we found the following conditions to prevail.

1. Increasing percentages of federally connected children tend to show a slight association with higher property values per pupil, but the association is very weak and is not consistent across all 16 States.

2. Increasing percentages of federally connected children generally are associated with lower tax rates to raise revenue for schools, higher per pupil expenditures, and lower ratios of pupils to teachers, but the associations are very weak and are not consistent across all 16 States.

3. Increasing percentages of federally connected children are associated with higher tax rates to raise revenue for schools when taxes are adjusted for loss of impact aid funds, but most of the relationships are moderately weak.

The conclusion for these relationships is that heavily impacted LEAs appear to be associated with favorable school financing indicators but that withdrawal of aid could change the tax relationships considerably if current levels of educational effort are to be maintained. The fact that heavy impaction does not show a stronger relationship than it does

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1/Correlation analysis was used to test for relationsnips between percentages of federally connected students and the other factors listed. Details are given in appendix II.

with taxes adjusted for loss of aid, however, confirms our previous analysis that many LEAs would not require a great increase in taxes if impact aid was withdrawn. Although our results cannot be considered representative of the entire Nation, they indicate that large percentages of federally connected children do not necessarily indicate serious economic burdens on LEAs.

Property value per pupil

Part of the rationale for impact aid is that LEAs must educate the children of Federal employees without being able to tax the properties on which these employees live or work. It would be expected, therefore, that large percentages of federally connected children would be associated with lower dollar amounts of taxable property per pupil if the presence of Federal installations was an economic burden. We found, however, that although some individual States showed the expected association, the analysis of all 1,671 LEAs in the 16 States showed a very weak association with higher dollar amounts of taxable property per pupil. All of the relationships, both at the individual State level and in total, were very weak or moderately weak.

Because the overall trend showed association with high dollar amounts of taxable property, and because no individual State showed a strong relationship with low dollar amounts, we concluded that large percentages of federally connected children do not necessarily indicate that LEAs would be burdened because of lower dollar amounts of taxable property per pupil.

Tax rates to raise revenue
for schools, per pupil expenditures,
and pupil/teacher ratios

An HEW-financed study showed that heavily impacted LEAs tended to have lower tax rates to raise revenue for schools than lightly impacted LEAs. It also showed that heavily impacted LEAs tended to have higher per pupil expenditures and lower ratios of pupils to teachers. The study concluded that tne effect of impact aid on many LEAs was to allow them to maintain a better level of education with lower local taxes.

Although some individual States showed associations which could be considered burdensome (e.g., higher local tax rates to raise revenue for schools, lower per pupil expenditures,

and higher pupil/teacher ratios in heavily impacted areas), analyzing all 1,671 LEAs in the 16 States showed favorable associations (e.g., lower local tax rates to raise revenue for schools, higher per pupil expenditures, and lower pupil/teacher ratios.) However, the relationships, both at the individual State level and overall, were weak. Considering the overall trends, our analysis tends to confirm the conclusion of the previous HEW-financed study that impact aid allows many LEAs to maintain a better level of education at lower local taxes.

Taxes adjusted for loss of impact aid

Although our analyses showed that increasing percentages of federally connected children are generally associated with lower local tax rates to raise revenue for schools, further analyses showed that loss of impact aid funds would change these relationships considerably. Of the 16 States, we analyzed data for 7--5 of which had shown a weak to moderately strong association with lower taxes and 2 a slight association toward higher taxes before adjusting for assumed loss of impact aid funds. Our analysis showed that if local taxes for schools were adjusted for loss of aid, large numbers of federally connected children would be associated with higher taxes in six of the seven States. Two of these relationships are moderately strong. However, most of the relationships are not strong and one State still shows an association with lower taxes.

The reversal in correlation values indicates that impact aid funds have enabled many heavily impacted LEAs to keep their local taxes for schools down. The fact that highly impacted LEAs do not show a strong association with high tax rates even after aid is withdrawn indicates that many heavily impacted LEAs still have lower tax rates to raise revenue for schools than lightly impacted LEAs, a fact that is consistent with our previous analysis of changes in taxes resulting from loss of aid. (See p. 43.)

COMPARISON OF IMPACTED AND NONIMPACTED LEAS

Comparison of impacted and nonimpacted LEAs within a State can show some of the effects of federally connected children on LEAs. The results from 14 of the 16 States in our case study on impacted and nonimpacted LEAS showed that they differed greatly on several important characteristics. For example, the LEAs receiving impact aid funds were generally the largest and most prosperous LEAs within a State. On the other hand, to raise the same amount of local revenue

per child as LEAs not receiving aid, impacted LEAs in most States analyzed, on the average, would have to have higher property taxes than nonimpacted LEAs if the aid were not available. The fact that this was not true in all States showed that the presence of federally connected children does not necessarily create a heavy tax burden. Even in those States where impacted LEAs have high tax rates, many individual LEAs that are impacted have lower tax rates than nonimpacted LEAs.

Total property valuation for tax base

In all States analyzed, LEAs receiving impact aid had larger ADA and taxable property of greater volume than those not receiving such aid. Two basic reasons for this are that (1) most very large LEAs were impacted and (2) most very small LEAs were not impacted.

	ADA for LEAs			
	Impacted LEAs		Nonimpacted LEAs	
State	Number	ADA	Number	ADA
A	39	5,170	92	710
B	38	5,267	113	3,439
C	68	1,780	44	1,200
D	57	1,586	110	542
E	24	4,895	16	3,100
F	61	11,407	69	4,320
G	23	2,245	37	780
H	212	4,408	865	1,363
I	62	3,980	240	3,664
J	62	8,418	537	2,756
K	140	698	508	126
L	144	11,107	580	2,717
M	362	1,246	257	447
N	119	7,260	377	3,384

State	Total Property Valuation Per LEA			
	Impacted LEAs		Nonimpacted LEAs	
	Number	Property valuation (millions)	Number	Property valuation (millions)
A	89	$173.5	92	$ 30.1
B	38	243.8	113	182.4
C	68	84.2	44	57.9
D	57	58.9	110	23.3
E	24	224.3	16	119.5
F	61	476.9	69	141.8
G	23	94.9	37	55.3
H	212	118.5	865	47.9
I	62	112.0	240	124.6
J	62	369.9	537	111.7
K	140	21.3	508	6.5
L	144	534.9	580	95.6
M	362	51.1	257	26.2
N	119	176.1	377	69.3

Although the above analyses show that the impacted LEAs in the 14 States are larger and more prosperous in total property valuation than other LEAs, further analysis shows that in most of the States impacted LEAs tend to have less property valuation per pupil than the nonimpacted LEAs. Our analysis showed the following regarding property value per pupil.

State	Property Valuations Per Pupil (note a)				
	Impacted LEAs		Nonimpacted LEAs		
	Number	Property value per pupil	Number	Property value per pupil	Difference
A	89	$33,563	92	$42,398	$-8,835
B	38	46,288	113	53,035	-6,747
C	68	47,300	44	48,234	-934
D	57	37,161	110	43,013	-5,852
E	24	45,830	16	38,551	7,279
F	61	41,810	69	32,815	8,995
G	23	42,281	37	70,840	-28,559
H	212	26,891	865	35,131	-8,240
I	62	28,145	240	34,007	-5,862
J	62	43,942	537	40,521	3,421
K	140	30,498	508	51,642	-21,144
L	144	48,155	580	35,179	12,976
M	362	40,988	257	58,545	-17,557
N	119	24,261	377	20,469	3,792

a/This analysis is weighted by the size of the LEAs involved. Total property valuations in the State for impacted and nonimpacted LEAs were divided by the total number of students in those LEAs.

Because impacted LEAs tended to have less property value per pupil than nonimpacted LEAs, we also examined tax rates in selected States to determine whether the overall prosperity of impacted LEAs was adequate to override these per pupil differences and result in comparable tax rates.

Analysis of tax rates

The differences in property value per pupil noted above are also reflected in the tax rates that impacted LEAs must levy to maintain the identical level of local per pupil revenue as nonimpacted LEAs. In five of the seven States in which we analyzed data, impacted LEAs, on the average, levy a higher tax than nonimpacted LEAs even though they receive impact aid funds.

Tax Per $1,000 of Property Valuation (note a)

State	Impacted LEAs	Nonimpacted LEAs	Difference
A	$15.60	$12.35	$3.25
B	21.32	18.61	2.71
C	4.11	4.03	.08
D	20.95	18.10	2.85
E	11.62	13.82	-2.20
F	7.96	10.15	-2.19
G	16.16	9.65	6.51

a/These tax rates are real tax rates, that is, assessment percentage times millage tax rate. These rates should be applied to property values at 100-percent valuation to determine total taxes. This procedure was necessary because LEAs tended to assess property values at different levels so millage tax rates were not comparable.

In the two States where impacted LEAs have lower tax rates than nonimpacted LEAs, the impacted LEAs are definitely more prosperous than the nonimpacted LEAs. Not only do the impacted LEAs in these States have larger total property valuations than the nonimpacted LEAs, but they also have a larger property valuation per pupil. This is true even though no funds are provided through property taxes for some federally connected students in these States.

In the two States, A and G above, where impacted LEAs have considerably larger rates than nonimpacted LEAs, a large proportion of the impacted LEAs have very large percentages of federally connected children. For example, 11 of 23

impacted LEAs in one State and 15 of 89 impacted LEAs in the other had more than 25 percent federally connected children in their school systems. Two additional impacted LEAs in the first State and six in the second had more than 20 percent federally connected children. Our previous analyses showed that LEAs having such a proportion of federally connected children generally would have heavy tax burdens should all impact aid be removed. Even in these States there are some impacted LEAs that have lower tax levies for a given level of per pupil revenue than nonimpacted LEAs of similar size.

SUMMARY OF RESULTS OF ECONOMIC IMPACT

Without impact aid entitlements, 48 percent of the 1,671 LEAs analyzed would need property tax increases of less than 5 percent; 18 percent would need tax increases of 5 to 10 percent; and, at the upper extreme, 15 percent would need tax increases of 25 percent or more. Similarly, analyses show that, by eliminating 3(b) aid only, smaller increases in property taxes would be required.

By applying alternative eligibility and payment provisions to the program, total impact aid entitlements could have been reduced between $68 million and $351 million, using fiscal year 1973 as a basis.

AGENCY COMMENTS AND OUR EVALUATION

HEW provided several general comments concerning the matters discussed in this chapter. Its comments and our response are discussed individually as follows.

HEW said that it would be most helpful if we would publish our technical analysis in addition to the summaries presented in this report because it is virtually impossible to make an appraisal of the scientific validity of the work without seeing more details. For example, HEW said that our report frequently refers to strong or weak relationships between two variables but the exact analyses which were carried out are never described nor are the quantitative measures of the strengths of such relationships ever given.

In response, on pages 41 through 43 of this report we indicate the data and methods used for these analyses. This information was also contained in the draft report given to HEW for comment. If HEW's comment is directed toward the discussion of "Federally Connected Children and LEA Prosperity," we indicate on page 54 (and this was also in the draft report)

that we used correlation analysis to test the relations between increasing percentages of federally connected children and such school financing indicators as (1) property value per pupil, (2) school tax rates, (3) per pupil expenditures, and (4) ratios of pupils to teachers. We also stated on page 56 (as we had in the draft report) that we used further correlation analyses in seven States to test the relationship between increasing percentages of federally connected children and school taxes adjusted for loss of impact aid funding. The quantitative measures and our interpretation of these measures are included in appendix II, which is referred to in the footnote on page 54. We believe this is an adequate presentation of the methods we used.

HEW said that market value is usually considerably more than assessed value for tax purposes, and a $50 increase in taxes on a home with a market value of $40,000 may well represent a significant percentage increase in taxes and in tax rates.

In the draft report given to HEW for comment, we calculated percentage changes in taxes as well as dollar changes in taxes. On pages 43 through 47 we indicate that our primary emphasis was on percentage changes. We showed dollar changes because not all States place the same emphasis on local property taxes to finance education. We realize, therefore, that large percentage changes are not always large dollar changes and vice versa, as indicated on page 47.

HEW said that our report measures economic burden on an LEA by calculating the tax increase that would be needed if LEAs did not receive payments under the impact aid program. It said that our report should point out that there is by no means agreement on how to assess economic burden and that many analysts would regard the tax increase measure as an inadequate approach. It said that one of the main problems with using increased taxes as a measure of burden is that Federal facilities may create economic gains (e.g., increased incomes) as well as burdens.

Again in the draft report given to HEW for comment, we recognized that the tax increase measure is not the only measure of the economic burden of Federal facilities and, in fact, called our measure only an indirect measure. Also, we noted that no objective measure of economic burden has ever been set forth. (See p. 41.) Previous studies have mentioned economic gain created by Federal facilities but have not found clear-cut ways of measuring such gain because it is extremely difficult to determine what the level of economic activity

would have been without the presence of the Federal facility. We believe the tax increase measure is a good indirect measure of burden because it shows how much additional tax LEAs would need to maintain their current level of educational effort should amounts of impact aid be withdrawn.

CHAPTER 5

OTHER MATTERS

In addition to reviewing the validity of claims for impact aid funds, the School Assistance in Federally Affected Areas payment rates, and the impact of federally connected children on local educational areas, we developed information on:

--The effect of one State's plan for equalizing educational revenues made available to its LEAs.

--The effect of a recent amendment to Public Law 81-874 on payments to LEAs for children whose parents work on Federal property located outside the LEA's county or State.

--How SAFA payment rates compared to local educational costs.

THE EFFECT OF ONE STATE'S EQUALIZATION PLAN

Before passage of the Education Amendments of 1974 in August 1974, funds authorized under section 3 of Public Law 81-874 could not be paid to any LEAs in States which considered such payments in determining LEA eligibility for, or the amount of, State aid. This provision was to prevent the use of Federal funds to supplant State funds. The 1974 amendments changed this provision to permit any State which has an acceptable plan to equalize expenditures for public education within the State to consider impact aid payments in determining the relative financial resources available to LEAs. If the State does not have an equalization plan in effect, the consideration of impact aid as local resources will reduce or end payments.

One State we reviewed adopted, in fiscal year 1974, a statewide program to equalize the financial resources of its LEAs. The program is designed to provide more State aid to LEAs with low wealth per pupil than to LEAs with high wealth per pupil. The State defines "wealth" as the sum of assessed property value and taxable income. Under this program, the State grants aid to LEAs that cannot support their legally authorized budget with funds derived from (1) taxing their local wealth, (2) section 3 of Public Law 81-874, and (3) certain miscellaneous receipts. LEAs prepare their own budgets which can be increased only

by a certain percentage from one year to the next and must equal at least $600 per pupil.

For computing State aid, each LEA is required to tax its wealth at a specified rate, referred to as the "local effort rate." If an LEA's budget per pupil is above the State-established norm, its local effort must be above the State norm rate in the same proportion that its budget per pupil exceeds the norm. Thus, if the LEA wishes to spend more than the norm budget for education, it must tax its wealth proportionately more. Similarly, if on a per pupil basis the LEA's budget is below the norm budget, its local effort must be proportionately below the norm rate.

The State determines LEA norms using the State's median cost of operating LEAs with certain sizes of school enrollments. For fiscal year 1974 the State divided its LEAs into three enrollment categories and the budget per pupil for each category was:

Enrollment	Norm budget per pupil
Under 400	$936
400 to 1,299	936
1,300 and over	728

The State equalization law mandates a norm tax rate of 1.5 percent of an LEA's wealth to meet the budget. Thus, if an LEA's legally authorized budget is greater than its norm budget, its local tax rate must exceed 1.5 percent by the same percent that the actual budget exceeds the norm budget. Similarly, if the LEA's budget is less than the norm budget, its tax rate must be lower than 1.5 percent by the same percent that the authorized budget is lower than the norm budget. The State aid formula is:

Legally authorized general fund budget		$ XXX
Deductions:		
District wealth times local effort rate	$ XX	
Miscellaneous revenues dedicated to the LEA	XX	
Prior year section 3 receipts	XX	XXX
State aid to LEA		$ XXX

To demonstrate the State equalization program's effect on the five LEAs we reviewed in this State, we compared educational revenues available in fiscal year 1973, before equalization, with those available in fiscal year 1974, after equalization.

	LEA 1	LEA 2	LEA 3	LEA 4	LEA 5
Fiscal year 1973					
General fund budget	$34,038,923	$1,500,893	$348,988	$3,815,301	$3,857,595
Section 3 receipts	270,293	58,915	17,446	111,452	947,875
State aid	6,473,429	464,288	154,141	1,030,899	1,340,404
State aid per pupil	152	284	318	190	241
Fiscal year 1974					
General fund budget	$35,687,638	$1,443,138	$379,942	$3,921,333	$3,989,170
Section 3 receipts (estimate)	270,293	58,915	17,446	111,452	947,875
State aid	10,450,976	527,757	207,758	1,359,341	2,144,049
State aid per pupil	254	335	435	253	404
Percent of increase in State aid per pupil	67	18	37	33	68

During this period, the State increased its aid an average of 47 percent from about $105 million, or $221 per pupil, to $154 million, or $336 per pupil. Although State aid increased appreciably, 53 LEAs, or 17 percent of all LEAs in the State, received less State aid because of their relatively high wealth. Of the 53 LEAs, 41 that had received aid in the past received no State aid under the equalization law.

If section 3 receipts had not been considered in the computations for fiscal year 1974, one of these LEAs would not have been required to raise any local funds and its revenues would still have exceeded the amount that the State legally permits it to budget or spend. The State-computed fiscal year 1974 State aid for this LEA was:

Legally authorized general fund budget		$3,989,170
Deductions:		
District wealth times local effort rate	$763,219	
Miscellaneous revenues dedicated to the LEA	134,027	
Prior year section 3 receipts	947,875	1,845,121
State aid to LEA		$2,144,049

If the supplant provision of Public Law 81-874 had been in effect, the State would not have considered the section 3 receipts in computing State aid, which would have been increased to $3,091,924--the amount of State aid computed above plus the section 3 receipts. Thus, the increased State aid, section 3 receipts, and miscellaneous revenues would have equaled $4,173,826. Because this amount--which does not include any locally raised tax revenues--would have exceeded the fiscal year 1974 legal budget, the LEA would not have been required to use any locally raised tax revenues to finance education program.

If section 3 receipts had not been considered in computing the equalization formula, LEAs would have needed taxes adjusted to remain within legally authorized budget.

PAYMENTS TO LEAS BASED ON FEDERAL PROPERTY LOCATED OUTSIDE THEIR COUNTY OR STATE

Before passage of the Education Amendments of 1974, payments for section 3(b) childen were computed at 50 percent of the approved SAFA payment rate. However, these amendments provide that, beginning with fiscal year 1976, payments for section 3(b) children will vary, depending on the type and location of the federally connected parent's employment. The various payment rates to be applied in fiscal year 1976 are:

1. Children of uniformed services members--50 percent or same as previous rate.

2. Children of employees who live and work in the same county where the LEA is located--45 percent or 10 percent below the previous rate.

3. Children of employees who work outside the county in which they reside--40 percent of the approved SAFA payment rate or 20 percent below the previous rate.

4. Children of employees who work in a State other than the one in which they reside--no payment.

In fiscal year 1973 the 100 LEAs we reviewed received SAFA aid totaling $61.7 million. Following is our estimate of the reduction in total payment based on the new rate provisions applied to fiscal year 1973 SAFA payments. The analysis does not include the effect on the program of any other new provisions of the law, such as (1) payments for students living in low-rent housing and handicapped students and (2) certain "hold harmless" clauses which would reduce the effect on LEAs, for the first year of implementation, of receiving reduced payments for section 3(b) children because of the type and location of the federally connected parent's employment.

Total fiscal year 1973 payments		$61,726,872
Reductions in payments due to:		
Paying 45 percent of payment rate for Federal parents who live and work in same county where LEA is located	$1,802,253	
Paying 40 percent of payment rate for Federal parents who work outside the county in which they reside	895,295	
Not funding pupils of Federal parents who work outside the State in which they reside	a/4,301,237	$6,998,785
Resulting payment		$54,723,087
Percent of payment reduction		11.3

a/Of this amount, $3,886,000 came from one LEA.

The range of reduced payments in some LEAs would have been significant as shown below:

Number of LEAs	Percent of reduction in payment
69	under 10
18	10 to 15
9	16 to 25
2	26 to 50
2	over 50

The four LEAs which would have had more than a 25 percent reduction in their payments were located within reasonable commuting distances 1/ of another State in which there was a Federal installation employing people residing in the areas served by the LEAs. In one State three LEAs claimed large numbers of 3(b) pupils whose parents were employed on a Federal installation within 24 miles of the LEAs but in a contiguous State. One of these LEAs, which would have had about $95,000, or an 8.8 percent reduction in its payment, was within 1 mile of the installation.

Two other LEAs--located in different States--would have had reductions in their payments of about $257,000 or 80 percent, and $3,886,000, or 30 percent, respectively, because most of their 3(b) claims were based on pupils whose parents lived within the LEA boundary and worked on Federal properties located within reasonable commuting distances but in another State.

The intent of the provision for reducing payments for children with parents employed on Federal property located outside the county or the State in which they reside is given in a March 29, 1974, Senate Report No. 93-763 advocating the reduction. The report states:

> "b category children who reside with a parent employed on Federal property located outside the school district * * * represent minimal impact on the school district's tax base, since their parent's residence is subject to local taxation and the Federal property, since it is located outside the district, does not detract from the district's tax base.

* * * * *

1/OE considers Federal properties within 100 miles of an LEA boundary to be within reasonable commuting distance.

"b category children whose parents were employed on Federal property located in another State would not be entitled to payments. Their presence in a school district makes no Federal impact since their parents pay State and local taxes related to the residence, and no Federal property to which such children are related is present within the district or the State to affect adversely the districts' tax base." (Emphasis added.)

The overall intent of section 3 of Public Law 81-874 is to provide financial assistance to LEAs because of federally connected increases in school enrollments without increases in their tax bases. The impact on an LEA's tax base of "b" children with a parent employed on Federal property located outside the LEA and "b" children with a parent employed on Federal property located in another State seems the same because the Federal properties in both instances are outside the taxing jurisdiction of the local taxing authority while the parents' residences are inside.

COMPARISON OF SAFA PAYMENT RATES TO EDUCATIONAL COSTS

At 99 of the 100 LEAs, we compared the fiscal year 1973 SAFA payment rates for each federally connected pupil with (1) school year 1971-72 local contribution rates for each non-federally connected pupil and (2) total educational costs for each pupil for that school year. One LEA was excluded because it was not operational until school year 1972-73. We made the comparisons using school year 1971-72 revenue and cost data because OE uses 2-year old data in computing payment rates.

We computed the local contribution rate for nonfederally connected children by dividing the LEA's local revenues by its ADA minus (1) the ADA of all childen living with a parent both employed and residing on Federal property because LEAs are presumed to receive no local revenue for educating these children and (2) one-half the ADA of children living with a parent either employed or living on Federal property because LEAs are presumed to receive only 50 percent of normal local educational revenues for educating these children. This method of adjusting ADA is consistent with the major premise underlying section 3 of Public Law 81-874--half of the real property tax required to meet the local share of the cost of educating a child is derived from taxation on residential property and half on commercial property.

Although OE uses local contribution rates for nonfederally connected children in determining allowable payment rates to the LEAs, OE officials said that this measure is not appropriate in all cases; that is, when LEAs receive substantial local revenues even though most of the children enrolled in their schools are federally connected. We used locally financed cost per nonfederally connected pupil as the basis of our comparison because we believe that in most cases it is a useful yardstick.

The percent of educational revenues collected from local sources varied considerably from one State to another and some of these variances were due to different State policies for financing education. Some of the 17 States used State aid to finance a large percentage of local education costs while others financed a much smaller percentage. LEAs in high-State-aid States tended to have lower local contribution rates than LEAs in low-State-aid States. The LEAs in high-State-aid States generally claimed SAFA minimum rates because their local contribution rates were below the minimum rates. Our comparison showed that these LEAs received much more in relation to their non-Federal local contribution rates than the LEAs in low-State-aid States.

We also compared the LEA SAFA payment rates to total educational cost per pupil to nullify as far as possible the influence of State policies on financing education. This enabled us to compare SAFA payment rates received by LEAs in one State to those received by LEAs in other States. Because the SAFA payment rate is intended to compensate LEAs for losses in local revenues, we also included, as a point of reference in our analysis, OE statistics on statewide LEA average educational costs contributed from local sources.

Although considerable variances existed between SAFA payment rates and per pupil educational costs, the law does not stipulate that SAFA payment rates must relate directly to the recipients' education costs. Minimum SAFA rates are used by LEAs requesting such a rate and are based on State or national average costs. Comparable rates are used by LEAs requesting and justifying such rates and are based on the education costs of comparable LEAs. (See ch. 3.)

Our analysis of the 99 LEAs showed that fiscal year 1973 SAFA payment rates for federally connected pupils varied substantially from actual school year 1971-72 local contribution rates per nonfederally connected pupil. The payment rates that exceeded the local contribution rates per nonfederally connected pupil the most were the minimum rates. Our analysis also showed that payment rates in relation to total educational costs per pupil varied considerably among the LEAs.

Comparison of minimum SAFA rates to educational costs

In fiscal year 1973 some LEAs claimed and received payments based on minimum SAFA rates which exceeded their local contribution rates per nonfederally connected pupil. The minimum SAFA rates for federally connected pupils of two LEAs exceeded their total education costs per pupil.

Before 1953 Public Law 81-874 contained no minimum rate provision.' LEA payment rates were based on local contribution rates in comparable LEAs. LEAs in States which financed a large percent of their educational costs with State funds had small local contribution rates and, consequently, received relatively small SAFA payments. Conversely, LEAs in States which financed a smaller percentage of their education costs had larger local contribution rates and, consequently, received larger SAFA payments.

To avoid discriminating against States which financed a large percent of educational costs, the Congress amended Public Law 81-874 to establish a minimum payment rate. The minimum rate is equal to the higher of either one-half the national or one-half the State average expenditure per pupil. In no case may the minimum rate exceed the State average expenditure per pupil.

Of the 4,581 LEAs which received section 3 payments in fiscal year 1973, 2,876, or 63 percent, claimed minimum rates. Although the minimum rate provision appears to achieve the intent for which it was designed, some LEAs used payment rates which were much more than their local contribution rates per nonfederally connected pupil and, in a few LEAs, more than their total per pupil expenditures from all sources. In one State, for example, five LEAs used payment rates 2.7 to 7 times their local contribution rates for nonfederally connected children for school year 1971-72 and from 86 to over 114 percent of their total educational costs per pupil.

Of the 99 LEAs we analyzed, 59 in 13 States claimed minimum rates in fiscal year 1973. The following table shows the relationship between minimum payment rates for federally connected pupils and local contribution rates per nonfederally connected pupils.

Comparison of Fiscal Year 1973 Minimum SAFA Payment Rates to School Year 1971-72 Local Contribution Rates for Non-Federal Pupils

State	LEAs whose minimum SAFA rate was: Less than non-Federal local contribution rate	1 to 1.99 times non-Federal local contribution rate	2 to 4 times non-Federal local contribution rate	Over 4 times non-Federal local contribution rate
A	2	-	-	-
B	-	-	-	6
C	-	2	-	-
D	3	6	2	-
E	1	1	1	-
F	-	-	2	3
G	-	-	4	1
H	-	1	3	-
I	-	-	3	2
J	-	2	6	-
K	-	3	3	-
L	-	1	-	-
N	1	-	-	-
Total LEAs 59	7	16	24	12

As shown in the table, SAFA payment rates for federally connected pupils in 36 LEAs were more than twice their local contribution rates per nonfederally connected pupil.

The following table shows the relationship between minimum payment rates and the LEAs' total educational costs per pupil. We have included in this table OE's data on each State's average percentage of educational revenues from local sources. Because the SAFA payment rate is intended to compensate for the loss of local revenues, the State average is a reference to measure whether SAFA payment rates, as a percent of total per pupil costs, are more or less than the LEAs contribute to educational revenues from local sources.

Fiscal Year 1973 Minimum SAFA Payment
Rates as a Percent of School Year 1971-72
Total Educational Costs Per Pupil

State	Average percent of revenues from local sources (note a)	LEAs whose minimum SAFA rates were Below 60 percent	60 to 69.9 percent	70 to 100 percent	Over 100 percent
A	67	1	1		
B	20		5	1	
C	52	2			
D	48	5	3	3	
E	59	1	1	1	
F	28			5	
G	35			5	
H	35		3	1	
I	22			3	2
J	40		2	6	
K	41			6	
L	68			1	
N	58	1	--	--	-
Total LEAs	59	10	15	32	2

a/Data source was HEW's National Center for Educational Statistics.

As shown in the table, 34 of the 59 LEAs used payment rates for each federally connected pupil that were more than 70 percent of their total per pupil educational costs. Although not shown in the table, for 53 of the LEAs, the SAFA payment rates per federally connected pupil, as a percent of total per pupil costs, were more than the States' average percent of educational revenues for all LEAs from local sources.

Comparison of SAFA rates based on comparable LEAs to educational costs

We compared the SAFA payment rates of the 40 LEAs which used either the group or individually selected comparable LEA method of computing payment rates to their local contribution rates for nonfederally connected pupils. The following table shows that these methods also produced widely varying results in relation to the LEAs' contribution rates for nonfederally connected pupils.

Comparison of Fiscal Year 1973 SAFA Payment Rates Based on Comparable LEAs to School Year 1971-72 Local Contribution Rates for Non-Federal Pupils

State	LEAs whose rates based on comparable LEAs were: Less than 70 percent of local contribution rate	Between 70 and 99.9 percent of local contribution rate	Between 100 and 130 percent of local contribution rate	Over 130 percent of local contribution rate
C		4		
E	2	2	2	
K			1	
L		3	4	2
M	1	4		
N		3	1	
O		1		
P		2	2	1
Q	-	3	2	-
Total LEAs 40	3	22	12	3

SAFA payment rates computed using comparable LEAs ranged from 54 percent to over 175 percent of the local contribution rates for nonfederally connected pupils.

The following table compares SAFA payment rates to the LEAs' total educational costs per pupil. We have included each State's average percentage of educational revenues from local sources as a reference to measure whether SAFA payment rates, as a percent of total per pupil costs, were more or less than the LEAs contributed to education revenues.

Fiscal Year 1973 SAFA Payment Rates Based on Comparable LEAs as a Percent of School Year 1971-72 Total Educational Costs Per Pupil

State	Average percent of revenues from local sources (note a)	LEAs whose comparable payment rates were: Below 60 percent	60 to 69.9 percent	70 to 80 percent	Over 80 percent
C	52	2		2	
E	59	3	2	1	
K	41		1		
L	68		1	3	5
M	86			1	4
N	58		1	3	
O	53			1	
P	64	1	1	2	1
Q	63	2	3	-	-
Total LEAs 40		8	9	13	10

a/Date source was HEW's National Center for Educational Statistics.

Payment rates ranged from 49 to 99 percent of total educational costs per pupil, with 23 of the 40 LEAs using rates greater than 70 percent of their total costs per pupil. Although not shown in the table, the SAFA payment rates per federally connected pupil for 27 of the LEAs, as a percent of total per pupil costs, were more than the States' average percentage of educational revenues for all LEAs from local sources.

FISCAL YEAR 1973 STATISTICS

ON LEAS REVIEWED

LEA	Enrollment for Section 3(a) pupils	Enrollment for Section 3(b) pupils	SAFA funds received
Alabama			
Huntsville City Board of Education	35,157	1,145	10,582	$1,584,393
Decatur City Board of Education	9,169	-	960	132,207
Baldwin County Board of Education	14,443	-	722	98,424
Birmingham Public Schools	57,725	-	424	56,597
Troy City Schools	2,447	-	54	7,604
Arizona			
Tucson School District No. 1	43,278	1,161	6,144	1,211,894
Rice School District No. 2	1,153	1,026	125	397,767
Mesa Elementary school District No. 4	18,159	255	1,435	286,553
Phoenix Union High School District No. 210	28,553	2	994	124,792
Flagstaff School District No. 1	5,524	190	206	94,468
Scottsdale Common School District No. 48	19,135	-	490	63,092
Glendale Elementary School District No. 4	6,778	-	465	60,254
Alhambra School District No. 68	9,341	-	352	46,945
Casa Grande Union High School District	1,518	112	32	44,649
Winslow Elementary District No. 1	1,629	11	207	30,927
Pinetop Lakeside Elementary School District No. 32	706	5	182	25,920
California			
San Diego Unified School District	124,952	5,474	21,220	6,183,550
Alameda Unified School District	11,862	2,061	1,788	1,215,174

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LEA	Enrollment for Section 3(a) pupils	Enrollment for Section 3(b) pupils	SAFA funds received
California			
Los Angeles Unified School District	621,232	1,069	14,466	$2,964,485
Palm Springs Unified School District	6,921	58	796	157,000
Mariposa County Unified School District	1,405	237	172	130,595
Escondido Union High School District	5,429	5	355	87,607
Del Paso Heights School District	1,906	-	267	37,146
Jefferson School District	8,867	-	445	66,103
Roseville City School District	2,038	-	303	45,629
Colorado			
School District No. 1	91,603	898	5,012	1,621,555
Air Academy School District No. 2	4,679	1,781	968	921,293
Adams Arapahoe Joint School District No. 28	19,615	305	5,184	845,349
Cheyenne Mount School District No. 12	2,127	-	263	82,879
North Park School District R-1	576	8	194	45,983
Connecticut			
Town of Groton Board of Education	9,268	2,942	1,083	1,861,531
Town of Ledyard Board of Education	3,975	15	1,419	253,015
Hartford Board of Education	29,215	-	308	77,093
Bridgeport Board of Education	24,451	-	373	56,288
Ansonia Board of Education	3,854	29	120	34,814
Florida			
Okaloosa County Board of Public Instruction	26,928	3,716	10,698	2,779,500
District School Board of Seminole County	26,752	-	1,347	185,734

APPENDIX I

LEA	Enrollment for Section 3(a) pupils	Enrollment for Section 3(b) pupils	SAFA funds received
Florida			
Columbia County School Board	6,894	-	497	$ 66,981
Brevard County Board of Instruction	62,165	2,025	20,689	3,547,647
Georgia			
Dougherty County Board of Education	22,506	1,252	2,574	777,341
Board of Education Lowndes County	6,689	388	598	221,063
McIntosh County Board of Education	2,116	-	119	14,917
Calhoun City Board of Education	1,869	-	109	14,478
Harris County Board of Education	2,714	-	87	11,261
Kansas			
Unified School District No. 26	5,733	1,071	1,545	618,394
Shawnee Mission Unified School District No. 12	46,682	-	2,271	301,811
Unified School District No. 383	5,653	-	967	135,656
Unified School District No. 473	1,621	-	327	49,719
Oskaloosa Unified School District No. 473	498	-	43	6,195
Massachusetts			
Framingham School Committee	15,437	-	555	140,872
City of Peabody School Committee	10,423	-	397	91,965
Town of Brookline School Committee	6,053	58	113	86,275
Melrose School Committee	6,997	-	324	79,615
Cambridge School Committee	9,764	-	208	75,632
North Middlesex Regional School District	3,454	-	213	50,995
Marlborough School Committee	6,790	-	176	24,779

APPENDIX I

LEA	Enrollment for Section 3(a) pupils	Enrollment for Section 3(b) pupils	SAFA funds received
Massachusetts			
School Committee of the City of Chicopee	12,615	2,231	609	$1,142,737
Bourne School Committee	3,480	1,306	381	1,168,304
School Committee of the City of Boston	94,711	6	1,933	425,613
Montana			
Elementary School District No. 1	12,672	1,557	1,695	805,514
Billings Elementary School District No. 2	11,388	-	457	63,618
New Hampshire			
City of Portsmouth	5,961	1,671	1,140	1,077,950
Rochester Unified School District No. 54	4,395	-	409	64,098
Hampton School District	1,536	-	184	38,748
Concord Unified School District	5,284	-	161	37,411
Hanover School District	669	-	38	11,564
New Mexico			
Albuquerque Municipal School District No. 12	83,336	2,363	12,791	2,625,604
Espanola Municipal School District No. 45	5,973	303	1,062	258,379
Los Lunas Municipal School District No. 1	3,450	195	613	143,367
Santa Fe Public School	11,620	6	921	127,364
Pojaoque Valley Board of Education	1,274	145	478	118,169
Taos Municipal School District No. 1	3,196	87	182	56,222
Oklahoma			
Lawton Independent School District No. 8	20,840	2,185	8,585	1,929,024
Oklahoma City Independent School District No. 89	59,241	-	5,571	705,791
Putnam City Independent School District No. 1	20,240	-	1,767	239,407

	Enrollment for			
	LEA	Section 3(a) pupils	Section 3(b) pupils	SAFA funds received
Oklahoma				
Moore Independent School District No. 2	10,980	-	1,714	$ 230,632
Guthrie Independent School District No. 1	2,951	-	191	25,886
Sterling Independent School District No. 1	406	6	101	16,363
Chatanooga Independent School District No. 132	250	22	32	15,103
South Carolina				
Berkeley County Board of Education	18,369	1,447	4,236	1,108,714
McCormick School District No. 4	2,258	8	181	27,424
Barnwell School District No. 45	2,192	-	287	40,071
North Public School District No. 1	2,479	-	80	10,822
Denmark School District No. 8	1,691	-	57	7,604
Texas				
Fort Worth Independent School District	80,466	1,184	8,442	1,527,428
Abilene Independent School District	18,936	1,178	2,403	750,630
Austin Independent School District	56,139	-	3,903	520,495
San Marcos Independent School District	4,783	86	483	95,664
Duncanville Independent School District	5,661	10	472	68,564
Granbury Independent School District	1,363	-	139	19,012
Bastrop Independent School District	1,925	-	110	14,917
San Antonio	72,376	283	10,766	1,490,377
Virginia				
County School Board of Fairfax County	129,774	1,970	51,592	12,934,540

APPENDIX I

	LEA	Enrollment for Section 3(a) pupils	Enrollment for Section 3(b) pupils	SAFA funds received
Wyoming				
Laramie County School District No. 1	14,025	1,062	2,862	$ 798,711
Natrona County School District No. 1	13,516	12	833	119,065
Southwest School District No. 9	476	17	168	83,621
Teton County School District No. 1	1,445	117	171	84,453
School District No. 4	3,700	-	369	79,281
Fremont County Vocational High School	918	92	69	61,849
School District No. 6	448	91	23	71,350
Total	2,315,836	46,939	250,628	$61,726,872

APPENDIX II

CORRELATIONS OF PERCENT OF IMPACTION

WITH SELECTED VARIABLES (note a)

State	Real property value per pupil	Per pupil expenditure	Pupil to teacher ratio	Tax rate	Adjusted for loss of aid (note b)
All 16 States	.039	.030	-.097	-.260	
A	-.140	-.059	.032	-.292	.473
B	-.270	-.111	.010	.224	.477
C	.043	.289	-.228	-.153	.540
D	.329	.003	-.110	-.362	-.231
E	-.301	.044	-.185	-.511	.424
F	.150	.299	.132	.083	.322
G	.051	.644	-.325	-.565	.540
H	-.038	.004	-.060	-.287	-
I	-.136	-.082	-.004	-.307	-
J	-.233	.095	-.091	-.467	-
K	-.139	.086	-.276	-.324	-
L	.267	.391	.247	-.211	-
M	-.014	.147	-.109	-.137	-
N	-.147	-.131	.041	-.259	-
O	-.188	-.080	.162	-.335	-
P	.019	-.038	-.032	-.281	-

a/Correlation analysis is a statistical technique which shows the degree to which changes in given variables are associated with one another. Positive correlation coefficients indicate direct relationships (increases associated with increases) while negative coefficients indicate inverse relationships (increases associated with decreases).

The closer a coefficient is to 1 or -1, the greater the extent to which the changes in two variables are associated with another. Values close to zero indicate almost no relationship. For our purposes, we classified correlation coefficients as follows:

.7 or greater (-.7 or less)	Very strong
.5 to .699 (-.5 to -.699)	Moderately strong
.25 to .499 (-.25 to -.499)	Moderately weak
Less than .25 (0 to -.249)	Very weak

b/Only seven States were used in this part of our analysis. The analysis was concentrated in those States which showed negative correlation with unadjusted tax rates but included two that showed positive correlation with the unadjusted rates.

APPENDIX III

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

JUL 23 1976

Mr. Gregory J. Ahart
Director, Manpower and
Welfare Division
United States General
Accounting Office
Washington, D. C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Assessment of the Impact Aid Program". The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

John D. Young
Assistant Secretary, Comptroller

Enclosure

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE COMMENTS ON A GAO DRAFT REPORT, "ASSESSMENT OF THE IMPACT AID PROGRAM"

GENERAL COMMENTS

Some of the General Accounting Office Report recommendations can be concurred with in full and others partially. Some of the procedures and conditions in effect during the GAO review of P.L. 81-874 in Fiscal Year 1973 are no longer the same due to the complex changes made by P.L. 93-380 which was approved August 21, 1974. These changes with few exceptions became effective in Fiscal Year 1976.

Overclaims

GAO states that the Office of Education (OE) regulations and instructions for determining eligibility need to be clarified and better enforced to prevent local educational agencies (LEAs) from overclaiming and underclaiming numbers of federally-connected pupils in their applications. We believe the instructions are in accord with the intent of the law. Applicants are advised to claim any property and children associated with such property they believe may be eligible Federal property. Unless a property is claimed by an applicant, there is no way for OE to verify the property as eligible or ineligible. To reduce the number of LEAs overclaiming potentially federally-connected pupils, a possible solution is increased manpower in the Regional Offices to service and assist applicant school districts. Prior to 1967 when there were about 45 SAFA Program Officers in the Regional Offices, all applications from LEAs were reviewed annually, errors discovered, and corrections made. Since that time, because of cutbacks in overall agency staffing by both the Administration and the Congress, SAFA staff has been reduced to 24. Instead of reviewing all applications, an attempt is made to review the records maintained by each applicant at least once every three years. In addition, SAFA Program Officers are requested to review annually claims by new applicants, special section applicants and "border line" applicants (those barely meeting eligibility requirements). These suggested procedures for reviewing cases cannot be met due to other duties imposed upon the SAFA Program Officers.

(See GAO note, p. 90.)

* * * the terms "employed on" and "working on" are used synonymously. The understanding of many applicants and regional program personnel has been that they should consider a pupil as eligible federally-connected, if the parent is "working on" or "employed on" a Federal property on the date used by the LEA in making its parent-pupil survey. The basis for adopting the "one count system" is that it provides an administrative tool in order to determine the number in

APPENDIX III

average daily attendance of children with parents employed on Federal property on one specific date in the school year regardless of the number of parents who may have been working on, or will be working on this same Federal property the balance of the year.

Regarding LEA instructions for seeking eligible pupils as noted on page 14 of the report, an OE review of the facts indicates:

(1) that while a school district did in fact instruct teachers to count as federally connected pupils whose parent may drive a truck through a military base on the date of the survey, a review of the records did not uncover that any such pupils were claimed; the school district has agreed to delete such instructions in the future; and

(2) the records, for the school district alleged to have made the suggestion that a music teacher arrange her schedule so as to be working at a school located on Federal property on the survey date, did not indicate that any such children of a music teacher or any other questionable children were claimed.

The report called our attention to a school district claiming children of loggers without documentation that the parents were working more than 50 percent of their time on Federal property. Steps have been taken to assure that this school district will maintain proper records hereafter. The school district obtained the proper certification on their 1974-75 application; their survey form for the 1975-76 school year has a special certification pertinent to lumbering activities.

(See GAO note, p. 90.)

Technical Analysis

It would be most helpful if GAO would publish their technical analyses in addition to the summaries as given here. It is virtually impossible to make an appraisal of the scientific validity of the work without seeing more details. For example, the text frequently refers to strong or weak relationships between two variables. However, the exact analyses which were carried out are never described nor are quantitative measures of the strengths of such relationships ever given. GAO reports which use scientific methods should be subject to the same public scrutiny as other technical reports.

(See GAO note, p. 90.)

Market value is usually considerably more than assessed value for tax purposes, and a $50 increase in taxes on such a home may well represent a significant percentage increase in taxes and in tax rates (p. 43).

Methodology

The GAO report measures economic burden on an LEA by calculating the tax increase that would be needed if LEAs did not receive payments under the impact aid program. The report should point out that there is by no means agreement on how to assess economic burden and that many analysts would regard the tax increase measure as an inadequate approach. For example, a recent study prepared for HEW 1/ proposed two research designs for measuring the economic burden of Federal facilities: neither design used tax increases as a measure. One of the main problems with using increased taxes as a measure of burden is that Federal facilities may create economic gains (e.g., increased incomes) as well as burdens. The increased taxes measure in effect disregards improvements in the economic welfare of LEA residents due to the Federal presence.

GAO Recommendation

That the Secretary direct OE to strengthen administrative controls over the impact aid program by:

1. Clarifying the requirements that a parent must meet to be considered "employed on Federal property" so that payments to LEAs will better relate to the tax-exempt status of the property.

1/ National Planning Association. Alternative Research Design for Measuring the Economic Impacts of Federal Facilities on Localities Eligible for Impact Aid Grants. Washington, D.C., September 29, 1975.

Department Comment

We concur in the need for clarification of the term "employed on Federal property." A number of legal opinions have been rendered by the Department's Office of General Counsel relating to the concept of "employed on" Federal property since the beginning of the program. We will undertake to rewrite instructions which have been issued for use by LEAs and Program staff to make them more definitive. Prior to revising current instructions the problems inherent in modifying current understandings and developing more definitive statements will be reviewed thoroughly.

GAO Recommendation

2. Requiring adequate documentation from LEAs to determine whether a child with a civilian parent employed or working on Federal property actually resides with the federally-connected parent.

Department Comment

Federal Regulations (45 CFR 115.3(j)) state that "Name...of parent...who is employed on Federal property and with whom such pupil resides, unless the parent is a member of the uniformed services on active duty," is a required item on the parent-pupil survey form. Some LEAs use the above phraseology intact while others ask for both the parent's and child's address to show they reside together. We will strengthen instructions in this area but believe that only through extensive field review with a larger regional staff could this situation be appreciably improved.

GAO Recommendation

3. Requiring adequate documentation from LEAs to determine whether a child is a dependent of a uniformed services parent.

Department Comment

P.L. 81-874 Section 3(a)(2) states -- "had a parent who was on active duty in the uniformed services." No requirement of dependency is expressed in the statute. However, in the past, including FY 1973, the uniformed services clause was administered, generally, in such a manner as to require the federally-connected child to reside with the spouse of, or the parent who was on active duty. Revised regulations eliminated the "reside with" qualification so that it would be in keeping with the statutory language. We do not believe it is feasible to seek

more information than is currently required. However, we would be interested in obtaining clarification from GAO as to what type of information they believe is required and where the "dependency" requirement fits into the language.

GAO Recommendation

4. Adopting an alternative procedure to be used for States and LEAs that have different procedures for computing ADA to help insure the ADA estimates are made on the same basis.

Department Comment

P.L. 81-874 Section 403(10) establishes the definition of Average Daily Attendance as that which is determined in accordance with State law. Not to accept the ADA computed in this manner would require a change in the present language. We concur with GAO that by using a national average of ADA ratio to membership for all States and LEAs, would simplify administration of the law and could lessen ADA computational errors.

Another alternative would be to compute entitlement and an entitlement for payment on the basis of membership. A number of States now rely upon membership or average daily membership (ADM) data for financial and statistical purposes and do not keep attendance or ADA data except for Federal program purposes. Following this trend may avoid computational errors associated with conversion to ADA data. Recommendations will be made as to how the law must be modified to permit this type of computational average.

GAO Recommendation

5. Reviewing State aid allocation formulas relative to the supplant provision of the law.

Department Comment

It should be noted that with the passage of P.L. 93-380, which included the amendments to Section 5(d), in depth examinations of State aid programs will occur. States under certain conditions, with these amendments, now may consider P.L. 874 funds as local resources when computing State aid. OE has required field reviews and reports each year from Regional SAFA Program Officers relative to Sections 5(d)(1) and (2). We do concur with GAO that this is a necessary safeguard and a very important action. Again, it is dependent upon having the proper qualified number of Program Officers available in Regional Offices to make these studies, and States notifying the Office of Education of any change in State assistance law, policy or procedure.

GAO Recommendation

6. GAO recommends that the Secretary direct OE to: Review the revenue which LEAs and SEAs report to determine if it is received from State or local sources.

Department Comment

We concur in principle. However, the manpower now located in the SAFA Regional Offices canrot fulfill their present workloads which includes an in depth analysis of revenues to determine their sources in every instance.

GAO Recommendation

7. Specify in instructions for SEAs and LEAs the weight that should be given to its published criteria items, and establish ranges for each criterion to assist in compiling the data necessary for selecting comparable LEAs.

Department Comment

We recognize the need for study of this problem to determine whether improvements can be made. If the use of a weighting system is deemed advisable, recommendations will be made to accordingly change existing regulations.

GAO Recommendation

8. Develop procedures for approving Federal payment rates derived using comparable LEAs which are consistent with its instructions for selecting such LEAs.

Department Comment

We disagree since present procedures do provide for a review of the criteria set forth in the instructions for selecting comparable LEAs. The methods used for actual computation of the local contribution rates is set forth in 45 CFR 115.31.

GAO Recommendation

9. Require that applicants use as comparables only those LEAs that do not receive SAFA aid or determine an alternative procedure to remove the influence of federally-connected children from per pupil cost calculations.

Department Comment

To the extent possible, we have followed this practice. The instructions to applicant LEAs (OE Form 4019, 10/75)page 7 states: "The 5 comparable districts should not include applicants under Section 3 of the Act and should be selected in accordance..." Page 12 of the same instructions somewhat modifies the above by saing "if an applicant district is included among the suggested comparable districts..." However, in some States it is difficult to select comparable districts which are not federally impacted to some degree. In those instances their influence is reduced to the extent possible in computing the local contribution rate..

GAO note: Deleted general comments pertain to matters which were presented in the draft report but have been revised in this final report.

PRINCIPAL HEW OFFICIALS

RESPONSIBLE FOR ADMINISTERING

ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF HEALTH, EDUCATION, AND WELFARE:		
David Mathews	Aug. 1975	Present
Caspar W. Weinberger	Feb. 1973	Aug. 1975
Frank C. Carlucci (acting)	Jan. 1973	Feb. 1973
Elliot L. Richardson	June 1970	Jan. 1973
ASSISTANT SECRETARY FOR EDUCATION:		
Virginia Y. Trotter	June 1974	Present
Charles B. Saunders, Jr. (acting)	Nov. 1973	June 1974
Sidney P. Marland, Jr.	Nov. 1972	Nov. 1973
COMMISSIONER OF EDUCATION:		
William F. Pierce (acting)	Aug. 1976	Present
Terrel H. Bell	June 1974	Aug. 1976
John R. Ottina	Aug. 1973	June 1974
John R. Ottina (acting)	Nov. 1972	Aug. 1973
Sidney P. Marland, Jr.	Dec. 1970	Nov. 1972
Terrel H. Bell (acting)	June 1970	Dec. 1970

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